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Finanční analýza firmy HTC

Financial Analysis of HTC Company

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2. Description of the financial analysis methodology
3. Characterization of HTC company
4. Financial analysis of HTC company
5. Conclusion

Bibliography
List of Abbreviations
Declaration of Utilization of Results from the Bachelor Thesis
List of Annexes
Annexes

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The declaration

"Herewith I declare that I elaborated the entire thesis, including all annexes, independently."

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1. Introduction

The goal of the thesis is to analyze whether the company's operation is properly run, looking for the company's problems and potential risks, suggesting useful and effective solutions to the problem, working out a new budget plan and strategy for future development, expecting to earning a greater profit for the company.

How to evaluate a company's overall operations? It is by understanding the company's current financial position. We need to find out the historical financial statements in the past five years of the company. Through analyzing the historical financial dates, we will gain some information about the current and future financial health of a company. We will know whether the company is in financial trouble, the company is able to meet its long-term debt commitments, whether there is an optimal financing mix, whether the company will bring greater profits, and whether the company can maintain its competitive advantage. The main purpose is to provide the information to the company's manager to make decisions.

The purpose of analyzing of HTC Company is to assess the financial performance and the financial condition. Through the analysis of some basic financial ratios based on the financial date from 2007-2011, we can assets the influence on some major events, some important decisions. The dates show the HTC Company's trend, weakness and strengths. Overall, we can predict the HTC Company's behavior in future and make a sensible decision to get the sustainable development.

The thesis has been divided into five chapters: First chapter is the fundamental introduction, the second chapter discusses financial analysis method, that it is the theoretical background for the whole thesis. The third chapter introduces the HTC Company Profile. In this section, we can get some basic information about HTC Corporation, including history, product classification, and company structure. In the fourth chapter which is the most significant part of the thesis. We will describe the company's financial situation by analyzing the financial data of the HTC Company. I will use the methodology of financial analysis, which has been described in the second chapter, The most commonly used method for the analysis of financial data are so called ratio analysis. We will analyze the financial situation and the

development of HTC from 2007 to 2011.Common-size analysis is used to analyze balance sheet, income statement and cash flow of the company. Ratio analysis requires us to calculate the ratios by using the dates. We can find out how it changes, and why it changes in such a trend. The last chapter of this thesis is ―conclusion, this part some comments of the analyzing of my research will be made.

When we begin to write this thesis, we have to prepare the financial statement of HTC for the year 2007 to 2011. To ensure the reliability of the data we will use, we download five annual reports of HTC Company and then we put the financial statistics of each year into the Excel. We also download other companies' annual reports in order to make some comparison. Sometimes it is not easy to get the data or the information you need, we have to go through the report, or search the internet.

2 Description of the financial methodology

In this chapter, it will be specifically introduce the financial analysis methods[1]. It will contain these several parts: firstly, it will briefly and preciously introduce what is exactly the definition of the financial analysis; secondly the function of financial analysis for a company will be talked about. Thirdly we will talk about the source of information for financial analysis. In addition, we will focus on the methods of financial analysis. At first we will introduce the basic parts like balance sheet, income statement and cash flow. The second part also the most important part, the specific methods of financial analysis, such as common-size analysis, financial ratio analysis, pyramidal decompositions and influence quantification. Financial analysis refers to an assessment of the viability, stability and profitability of a business, sub-business or project. It is performed by professionals who prepare reports using ratios that make use of information taken from financial statements and other reports. These reports are usually presented to top management as one of their bases in making business decisions.

2.1Financial analysis for a company

To understand and value a company, investor has to look at its financial position. Fortunately, this is not as difficult as it sounds. A company's financial position is defined by its assets and liabilities. A company's financial position also includes shareholder equity. All this information is presented to shareholders in the balance sheet. This analysis is in order to express an assessment of the company's present and future economic condition. We can use financial analysis to evaluate the efficiency of a company's operation, and its ability to manage the expense and its creditworthiness. The financial analysis is the attempt to understand the true face of a business operating results and financial position from the implications of the accounting data. It will provide a basic for decision, investor and creditors. Continue or discontinue its main operation or part of its business. Make or purchase certain materials in the manufacture of its product; Acquire or rent/lease certain machineries and

[1] In this chapter, most of these methodology are based on the book:
Arthur J. Knowe, John D. Martin, J. William petty, 2004.

equipment in the production of its goods; Issue stocks or negotiate for a bank loan to increase its working capital; Make decisions regarding investing or lending capital; Other decisions that allow management to make an informed selection on various alternatives in the conduct of its business. Financial analysts often assess the following elements of a firm: Profitability - its ability to earn income and sustain growth in both the short- and long-term. A company's degree of profitability is usually based on the income statement, which reports on the company's results of operations. Solvency - its ability to pay its obligation to creditors and other third parties in the long-term. Liquidity - its ability to maintain positive cash flow, while satisfying immediate obligations. Stability - the firm's ability to remain in business in the long run, without having to sustain significant losses in the conduct of its business. Assessing a company's stability requires the use of the income statement and the balance sheet, as well as other financial and non-financial indicators. Source of information for financial analysis are mainly come from three areas: Company is the primary source of these data, which through its annual report and other information. The annual report will consist of the balance sheet, the income statement, the cash flow statement, and the shareholders' equity statement. Secondly it comes from markets date; we can find it on the securities price and industrial dates. And the last area is from the economic dates, it can be observed in some index, such as the GDP, CPI.

2.2 Financial statements of the company

2.2.1Balance sheet

In financial accounting, the balance sheet indicates what the firm owns and how these assists are financed in the form of liabilities or ownership interest. While the income statement purports to show the profitability of the firm, the balance sheet delineates the firm's holding and obligations. Together, these statements are intended to answer two questions: How much did the firm make or loss, and what is measure of its worth. In contrast, the income statement measures results only over a short, quantifiable period of time. Generally, balance sheet items are stated on an original cost basis rather than a present worth. Assets accounts are listed in order to liquidity .The first category of current assets covers items are

worthy of mention. The balance sheet presents a company's financial position at the end of a specified date. Some describe the balance sheet as a "snapshot" of the company's financial position at a point (a moment or an instant) in time. For example, the amounts reported on a balance sheet dated December 31, 2011 reflect that instant when all the transactions through December 31 have been recorded. Because the balance sheet informs the reader of a company's financial position as of one moment in time, it allows someone—like a creditor—to see what a company owns as well as what it owes to other parties as of the date indicated in the heading. This is valuable information to the banker who wants to determine whether or not a company qualifies for additional credit or loans. Others who would be interested in the balance sheet include current investors, potential investors, company management, suppliers, some customers, competitors, government agencies, and labor unions. The balance sheet must following the formula:

$$Assets = Liablities + shareholders'equity \quad (2.1)$$

Table 2.1 simple sample of balance sheet

	balance sheet		
current assets		**current liabilities**	
Cash	**100**	**account payable**	**100**
accounts receivable	**100**	**notes payable**	**100**
Inventory	**100**	**accrued expenses**	**100**
total current assets	**300**	**total current liabilities**	**300**
land	**100**	**long term liabilities**	**100**
equipment	**100**	**total liabilities**	**400**
investments(long term)	**100**	**total equity**	**200**
total assets	**600**	**Total L and E**	**600**

2.2.2 Statement of cash flow

The purpose of the statement is to emphasize the critical nature of cash flow to the operations o f the firm. Cash flow generally represents cash or cash equivalent items that can easily be covered into cash within 90days (such as a money market fund) The income statement and balance sheet that we have studied thus far normally based on the accrual method of accounting, in which revenues and expenses are recognized as they occur, rather than when cash actually changes hands. The cash from operating activities is compared to the company's net income. If the cash from operating activities is consistently greater than the net income, the company's net income or earnings are said to be of a "high quality". If the cash from operating activities is less than net income, a red flag is raised as to why the reported net income is not turning into cash. Some investors believe that "cash is king". The cash flow statement identifies the cash that is flowing in and out of the company. If a company is consistently generating more cash than it is using, the company will be able to increase its dividend, buy back some of its stock, reduce debt, or acquire another company. All of these are perceived to be good for stockholder value. Some financial models are based upon cash flow. A term that has received increasingly greater attention in the 1990s is free cash flow (FCF). This is actually a by-product of the previously discussed statement of cash flows. Free cash flow of the operating activities is equal to capital expenditures required to maintain the productive capacity of the firm and the dividends needed to maintain the necessary payout on common stock and to cover any preferred stock obligation.

Table 2.2 simple sample of cash flow

cash flow			
cash inflow		**cash outflow**	
generation of funds in normal operations	**100**	**expenditure of funds in normal operations**	**100**

sales of plant and equipment	**100**	**purchase of plant and equipment**	**100**
Liquidation of long-term investments	**100**	**long-term investment**	**100**
sales of securities	**100**	**payments of cash dividend**	**200**
total cash inflow	**400**	**total cash outflow**	**500**

2.2.3 Income statement

The income statement is the major device for measuring the profitability of a firm over a period of time. First note is that the income statement covers a defend period of time, whether it be one month, three months, or a year. The statement is presented in a stair-step or progressive fashion so that we can examine the profit or loss after each type of expense item is deducted. Income statement is sometimes referred to as the profit and loss statement (P&L), statement of operations, or statement of income. We will use income statement and profit and loss statement throughout this explanation. The income statement is important because it shows the profitability of a company during the time interval specified in its heading. The period of time that the statement covers is chosen by the business. The income statement shows revenues, expenses, gains, and losses; it does not show cash receipts (money you receive) nor cash disbursements (money you pay out). People pay attention to the profitability of a company for many reasons. For example, if a company was not able to banker/lender/creditor may be hesitant to extend additional credit to the company. On the other hand, a company that has operated profitably—the bottom line of the income statement indicates a net income—demonstrated its ability to use borrowed and invested funds in a

successful manner.

Table 2.3 simple sample of income statement

income statement	
sales	**2000**
cost of goods sold	**1500**
gross profit	**500**
selling and administrative expense	**220**
depreciation expense	**50**
operating profit(EBIT)	**230**
interest expense	**20**
earnings before taxes(EBT)	**210**
taxes	**99.5**
earnings after taxes (EAT)	**110.5**
preferred stock dividends	**10.5**
earnings available to common stockholders	**100**
shareholders outstanding	**100**
earnings per share	**1**

2.3common size analyses

Common size analysis is a method of comparing either financial statements of different size companies or financial statements of one company from different time periods. It achieves these comparisons by measuring some part of a company's financial operations against the totality of the operations. By doing this, common size analysis reduces the raw numbers to percentages that allow for much easier comparison between companies and across time. This method of analysis may be performed on either income statements or balance sheets, but it is only as accurate as the accounting practices used to come up with the numbers. It is difficult to make financial comparisons between companies, even ones in the same industry, simply because the circumstances between the companies can be so different. By the

same token, it is difficult to look at the numbers a company produces in a single year and compare it to what it did, for example, five years ago, as the financial conditions certainly will have changed in that time span. Luckily, common size analysis can be performed, allowing for much more reliable comparisons to be made.

2.3.1Horizontal common-size analysis

Time series analysis of financial statements covering more than one accounting period; also called trend analysis it looks at the percentage change in an account over time. The percentage change equals the change over the prior year. For example, if sales in 2010 are $100,000 and in 2011 are $300,000, there is a 200% increase ($200,000/$100,000). By examining the magnitude of direction of a financial statement item over time, the analyst can evaluate its reasonableness. The horizontal analysis will explain the absolute and relative changes. It is also take into account the economic environment changes, such as changes in capital market conditions, changes in input prices and so on.

The formula of the absolute change is:

$$\Delta X_{absolutely} = X_1 - X_0 \qquad (2.2)$$

The formula of the relative change is:

$$\Delta X_{relatively} = \frac{\Delta X}{X_0} \qquad (2.3)$$

X1 means financial item after the fiscal year, X0 means financial item on the fiscal year. △X means the absolute change of the financial item.

2.3.2Vertical common-size analysis

Financial statement item is used as a base value. All other accounts on the financial statement are compared to it. In the balance sheet, for example, total assets equal 100%. Each asset is stated as a percentage of total assets. Similarly, total liabilities and stockholders' equity are assigned 100% with a given liability or equity account stated as a percentage of the total liabilities and stockholders' equity. Financial statement item is used as a base value of the financial condition. All other accounts on the financial statement are compared to it. In the balance sheet, for example, total assets equal 100%. Each asset is stated as a percentage of

total assets. Similarly, total liabilities and stockholders' equity are assigned 100% with a given liability or equity account stated as a percentage of the total liabilities and stockholders' equity. For the income statement, 100% is assigned to net sales with all revenue and expense accounts related to it. Under vertical analysis, the statements showing the percentages are referred to as common size financial statement Common size percentages can be compared from one period to another to identify areas needing attention. Vertical analysis is a method of financial statement analysis in which each entry for each of the three major categories of accounts (assets, liabilities and equities) in a balance sheet is represented as a proportion of the total account. The main advantages of vertical analysis are that the balance sheets of businesses of all sizes can easily be compared. It also makes it easy to see relative annual changes within one business.

The formula of vertical common-size analysis is as follow:

$$\frac{i_a}{\sum i} \tag{2.4}$$

i_a Means the single one item in the whole indicator and $\sum i$ means the total amount of the whole indicators

2.4 Financial ratio analysis

What is ratio analysis? The Balance Sheet and the Statement of Income are essential, but they are only the starting point for successful financial management. Apply Ratio Analysis to Financial Statements to analyze the success, failure, and progress of your business. Ratio Analysis enables the business owner/manager to spot trends in a business and to compare its performance and condition with the average performance of similar businesses in the same industry. To do this compare your ratios with the average of businesses similar to yours and compare your own ratios for several successive years, watching especially for any unfavorable trends that may be starting. Ratio analysis may provide the all-important early warning indications that allow you to solve your business problems before your business is destroyed by them. Financial ratio analysis divided the ratios into categories which tell us about the difference about the company's finances and operations. In financial ratio analysis, ratios can be divided into different groups. We will introduce several groups of financial ratios, which are profitability ratios, solvency ratios, liquidity ratios, activity ratios and market

ratios.

2.4.1 Profitability ratios

Profitability ratio, which analyze the company's ability to generate profit from invested capital. For a company, profitability is most vital part. A class of financial metrics that are used to assess a business's ability to generate earnings as compared to its expenses and other relevant costs incurred during a specific period of time. For most of these ratios, having a higher value relative to a competitor's ratio or the same ratio from a previous period is indicative that the company is doing well. Profitability ratio analysis represents mathematical formulas applied to a company's financial statements. The results from these formulas help stakeholders determine how efficiently or effectively a business operates. Return on equity, return on assets, and profit margin are a few of the most common profitability ratios. These formulas measure both profit earned from selling goods and services and the financial returns made by investing money. Companies tend to use profitability ratio analysis as a benchmark tool to assess how well they operate compared to previous periods or a competitor. A company's profit margin is typically the most popular tool used in profitability ratio analysis. The basic formula is sales revenue less cost of goods sold divided by sales revenue. The result indicates what percent of sales a company can expect to remain after paying the inventory costs for all goods or services sold during a period. This remaining money helps the company pay for any expenses related to generating the sales revenue. Most companies use this formula on a monthly basis in most cases. They measure the ability to generate profit from invested capital in the form of return during a period; return is expected as a percentage. The higher the profitability ratios, the better competitively position of the company.

0perating profit margin

0perating profit margin is an indicator of profitability and is often used to compare the profitability of companies and industries of differing sizes. Significantly, ROS does not account for the capital (investment) used to generate the profit.

The formula is as follows:

$$operating\ profit\ margin = \frac{EBIT}{Revenues} \tag{2.5}$$

Net profit margin

When investors just want to get a simple profitability ratio analysis, net profit margin is the most often margin ratio used for operating activities.

The net profit margin shows how much revenue shows up as net income after all costs are paid. The net profit margin measures profitability that after consideration of all expenses, which including taxes, interest, and depreciation. The formula is as follow:

$$Net\ profit\ margin = \frac{EAT}{Revenues} \tag{2.6}$$

Gross profit margin

A financial metric used to assess a firm's financial health by revealing the proportion of money left over from revenues after accounting for the cost of goods sold. Gross profit margin serves as the source for paying additional expenses and future savings. The formula is as follow:

$$Gross\ profit\ margin = \frac{gross\ margin}{revenue} \tag{2.7}$$

Return on assets (ROA)

Return on assets is an indicator of how profitability a company is before leverage, and is compared with companies in the same industry. Since the figure for total assets of the company depends on the carrying value of the assets, some caution is required for companies whose carrying value may not correspondence to the actual market value. Return on assets is a common figure used for comparing performance of financial institutions (such as banks), because the majority of their assets will have a carrying value that is close to their actual market value. Return on assets is not useful for comparisons between industries because of factors of scale and peculiar capital requirements (such as reserve requirements in the insurance and banking industries). Return on assets is one of the elements used in financial analysis using the Du Pont Identity. The formula of ROA is as follow:

$$Return\ on\ assets = \frac{net\ income}{total\ assets} \tag{2.8}$$

Return on equity

ROE is one of the most important profitability ratios. It measures a firm's efficiency at generating profits from every unit of shareholders' equity (also known as net assets or assets minus liabilities). ROE shows how well a company uses investment funds to generate

earnings growth. ROE is between 15% and 20% are generally considered good. If new shares are issued then use the weighted average of the number of shares throughout the year. For high growth companies you should expect a higher ROE. Averaging ROE over the past 5 to 10 years can give you a better idea of the historical growth. The formula is as follow:

$$Return\ on\ equity = \frac{net\ income}{total\ shareholder's\ equity} \tag{2.9}$$

2.4.2Solvency ratios

One of many ratios used to measure a company's ability to meet long-term obligations. The solvency ratio measures the size of a company's after-tax income; excluding non-cash depreciation expenses, as compared to the firm's total debt obligations. It provides a measurement of how likely a company will be to continue meeting its debt obligations. Acceptable solvency ratios will vary from industry to industry, but as a general rule of thumb, a solvency ratio of greater than 20% is considered financially healthy. Generally speaking, the lower a company's solvency ratio, the greater the probability that the company will default on its debt obligations.

Debt-to-assets ratio

The *debt to assets ratio* (or debt to asset ratio) is an indicator of the proportion of a company's assets that are being financed with debt, rather than equity. A ratio greater than 1 indicates that a considerable proportion of assets are being funded with debt, while a low ratio indicates that the bulk of asset funding is coming from equity. A ratio greater than 1 also indicates that a company may be putting itself at risk of not being able to pay back its debts, which is a particular problem when a business is located in a highly cyclical industry where cash flows can suddenly decline. Possible requirements by lenders to counteract this problem are the use of restrictive covenants that force excess cash flow into debt repayment, restrictions on alternative uses of cash, and a requirement for investors to put more equity into the company. _To calculate the debt to assets ratio, divide total liabilities by total assets. The formula is as follow:

$$Debt - to - assets = \frac{TL}{TA} \tag{2.10}$$

Debt-to-Equity Ratio

The debt-to-equity ratio (D/E) is a financial ratio indicating the relative proportion of shareholders' equity and debt used to finance a company's assets. Closely related to leveraging, the ratio is also known as Risk, Gearing or Leverage. The two components are often taken from the firm's balance sheet or statement of financial position (so-called book value), but the ratio may also be calculated using market values for both, if the company's debt and equity are publicly traded, or using a combination of book value for debt and market value for equity financially. The formula is as follows:

$$Debt - to - equity = \frac{total\ debt}{total\ shareholder's\ equity} \tag{2.11}$$

Long-term debt-to-equity

In risk analysis, long-term debt-to-equity is a way to determine a company's leverage. The ratio is calculated by taking the company's long-term debt and dividing it by the total value of its preferred and common stock. . The formula is as follows:

$$Long - term\ debt - to - equity = \frac{LTD}{TL} \tag{2.12}$$

Financial leverage

The degree to which an investor or business is utilizing borrowed money. Companies that are highly leveraged may be at risk of bankruptcy if they are unable to make payments on their debt; they may also be unable to find new lenders in the future. Financial leverage is not always bad, however; it can increase the shareholders' return on investment and often there is tax advantages associated with borrowing. It is also called leverage. The formula is as follow:

$$Financial\ leverage = \frac{total\ assets}{total\ shareholder's\ equity} \tag{2.13}$$

2.4.3 Activity ratios

An activity ratio is one of several accounting ratios that measure how quickly a company can convert certain of its assets into cash, or revenue. Three commonly assessed activity ratios are the asset turnover ratio, the inventory turnover ratio and the receivables turnover ratio. An activity ratio, along with other accounting ratios, is used in fundamental analysis to determine the relative strength of a company compared to its

competitors. The information used to calculate an activity ratio is found on a company's balance sheet or income statement.

Receivable turnover

The ratio of receivables turnover is calculated by dividing a company's annual revenue by its average accounts receivable balance during the same year. Accounts receivables are sales made to customers on credit with terms for customers to pay the balance due. The formula is as follow:

$$Receivables\ turnovers = \frac{TR}{receivables} \tag{2.14}$$

Inventory turnover

The inventory turnover ratio indicates how often the company turns its inventory into revenue. Again, a higher ratio is better because it indicates that the company is moving product quickly from its warehouse into stores and, ultimately, into the consumers' hands. Analysts can determine the inventory turnover ratio by dividing sales by average inventory. The formula is as follow:

$$Inventory\ turnover = \frac{sales}{inventory} \tag{2.15}$$

Total assets turnover

The amount of sales generated for every dollar's worth of assets. It is calculated by dividing sales in dollars by assets. The formula is as follow:

$$Total\ assets\ turnover = \frac{total\ revenue}{average\ total\ assets} \tag{2.16}$$

Day's sales outstanding in accounts receivables

Day's sales outstanding in accounts receivables are a measure of the average number of days that a company takes to collect revenue after a sale has been made. A low DSO number means that it takes a company fewer days to collect its accounts receivable. A high DSO number shows that a company is selling its product to customers on credit and taking longer to collect money. The formula is as follow:

$$DSI = \frac{accouts\ receivables}{sales/365} \tag{2.17}$$

2.4.4 Liquidity ratios

Liquidity ratios are the ratios that measure the ability of a company to meet its

short-term-debt obligations. These ratios measure the ability of a company to pay off its short-term liabilities when they fall due. The liquidity ratios are a result of dividing cash and other liquid assets by the short term borrowings and current liabilities. They show the number of times the short term debt obligations are covered by the cash and liquid assets. If the value is greater than 1, it means the short term obligations are fully covered. Generally, the higher the liquidity ratios are, the higher the margin of safety that the company posses to meet its current liabilities. Liquidity ratios greater than 1 indicate that the company is in good financial health and it is less likely fall into financial difficulties.

Cash ratio

Cash ratio is the ratio of a company's cash and cash equivalent assets to its total liabilities. Cash ratio is a refinement of quick ratio and indicates the extent to which readily available funds can pay off current liabilities. Potential creditors use this ratio as a measure of a company's liquidity and how easily it can service debt and cover short-term liabilities. The formula is as follow:

$$Cash\ ratio = \frac{cash\ and\ cash\ equivalent + short-term\ investment}{current\ liabilities} \quad (2.18)$$

Quick ratio

The quick ratio is a measure of a company's ability to meet its short-term obligations using its most liquid assets (near cash or quick assets). Quick assets include those current assets that presumably can be quickly converted to cash at close to their book values. Quick ratio is viewed as a sign of a company's financial strength or weakness; it gives information about a company's short term liquidity. The ratio tells creditors how much of the company's short term debt can be met by selling all the company's liquid assets at very short notice. The formula is as follow:

$$Quick\ ratio = \frac{current\ assets - inventory}{current\ liabilities} \quad (2.19)$$

Current ratio

Current ratio is balance-sheet financial performance measure of company liquidity. Current ratio indicates a company's ability to meet short-term debt obligations. The current ratio measures whether or not a firm has enough resources to pay its debts over the next 12 months. The formula is as follow:

$$Current\ ratio = \frac{current\ assets}{current\ liabilities} \quad (2.20)$$

2.5 DuPont analysis (decomposition of ROE)[2]

Return on equity is a strongest indicator reflects if the company is financially successfully or not. ROE is a great tool for investors because it shows you what the return is on the portion of the company that belongs to equity. It is a simple calculation that quickly summarizes the ability of management to turn shareholder equity into profitability returns. The Du Pont identity breaks down Return on Equity (that is, the returns that investors receive from the firm) into three distinct elements. This analysis enables the analyst to understand the source of superior (or inferior) return by comparison with companies in similar industries (or between industries).

The Du Pont identity is less useful for industries, such as investment banking, in which the underlying elements are not meaningful. Variations of the Du Pont identity have been developed for industries where the elements are weakly meaningful. Du Pont analysis relies upon the accounting identity, that is, a statement (formula) that is by definition true. DuPont analysis is a type of analysis that measure a company's Return on Equity (ROE), which breaking into two main components ratios: return on assets, and financial leverage in the first stage, as we see in Figure 2.1. Through decomposing the ROE into these three parts, investors can examine how effectively a company is using equity. Then in the second stage, Return on Assets will be breaking into two components ratios, which are net profit margin ratio and total assets turnover ratio.

Method of gradual changes

There are four methods of quantification of influences, and method of gradual changes is one of them which will enables to analyze indicators ,the indicators change have caused change in basic ratio. In the method of gradual changes, decompositions have been divided into three component ratios.

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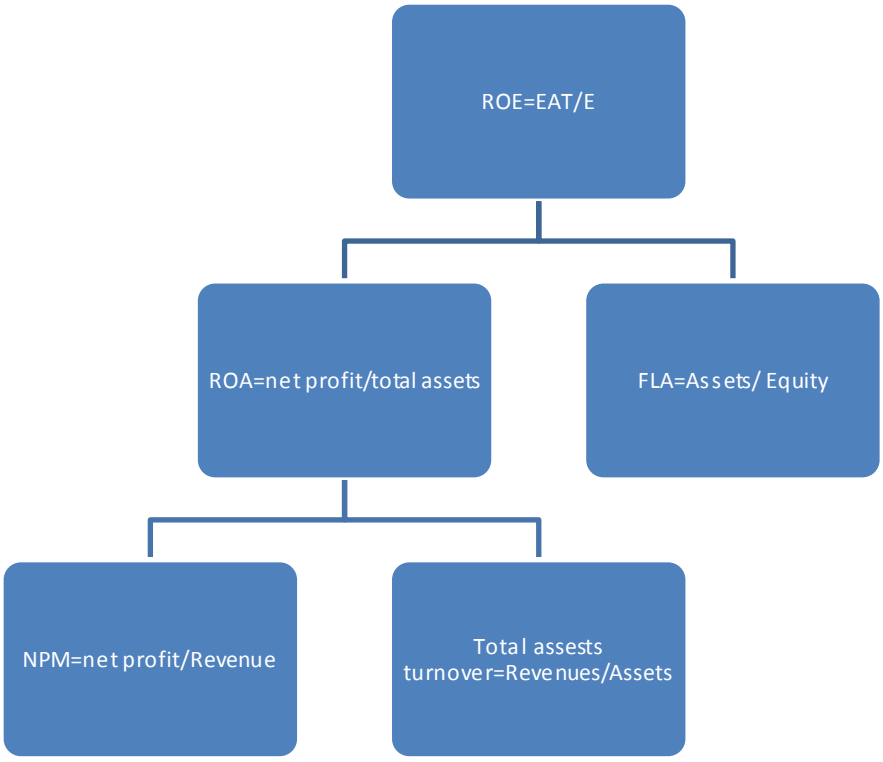
[2] Source : *International financial statement analysis* (Thomas R.Robinson, Hennie van Greuning, Elaine Henry, Micheael A. Broihahn/ November 10, 2008/, page.301)
From the website http://www.docin.com/p-233732727.html

$$\Delta y_x = \Delta x_{a1} + \Delta x_{a2} + \Delta x_{a3} \quad (2.21)$$

$$\Delta x_{ai} = \Delta a_i \cdot \prod_{j<i} a_{j,1} \cdot \prod_{j>i} a_{j,1} \cdot \frac{\Delta y_x}{\Delta x} \quad (2.22)$$

Symbols: x - basic ratio, Δx - absolute change in the basic ratio, a - component ratio, Δa - absolute change in the component ratio

Figure 2.1 DuPont Model of ROE



3 Financial Profile of HTC Company

In this chapter, we will introduce the HTC Company's profile[3]; it will help us to improve the general understanding of the company's basic situation. We will introduce the HTC corporation developed process, the achievement that it has made and its product; we also will generally introduce the whole Smartphone industry and the competitors in the global market of our company and finally we will use some common size analysis to analyze the basic financial performance of HTC Company.

3.1 Introduction of HTC Corporation

HTC Corp produces powerful handsets that continually push the boundaries of innovation to provide true mobile freedom. It is founded in 1997 by Cher Wang, Chairwoman, HT Cho, Director of the Board & Chairman of HTC Foundation, and Peter Chou, President and CEO, HTC made its name as the company behind many of the most popular operator-branded devices on the market. It has established unique partnerships with key mobile brands, including the leading five operators in Europe, the top four in the US, and many fast-growing Asian operators. It has also brought products to market with industry leading OEM partners and, since June 2006, under its own HTC brand. HTC is one of the fastest growing enterprises in the handheld industry, and in the past few years, the deep consumer recognition. "Business Week" (Business Week) ranked HTC as the second of the performance of the technology companies in the Asian region in 2007, and in 2006 as the company ranked third in the world of technology companies.

3.2The achievement that HTC had made HTC

A Global Leader in Photo reactivation & Design Founded in May 1997, HTC leads the mobile phone industry in both innovation and design. With the belief that the best things in life can only be experienced, not explained, HTC's "Quietly brilliant" brand strategy permeates the culture of organization. By always putting customers at the center, HTC

[3] From the website http://investors.htc.com/phoenix.zhtml?c=148697&p=irol-homeprofile

continues to deliver exceptional technologies and products. This is the core value of HTC as an innovative company as well as a business partner.

The passion for innovation and the vision to create revolutionary, life devices keeps HTC moving forward. HTC's portfolio of innovative handheld devices provides custom-made solutions to the telecommunications clients and retail partners in Europe, Americas and Asia and brings intuitive experiences to consumers around the world. With many talented employees and strong leadership, HTC rapidly captured a significant share of the market with its design expertise and keen market insights. HTC is now the 5th largest smart phone brand globally. In 2011, HTC was honored one of the "Best Global Brands" listed by interbred.

HTC has achieved many ground-breaking innovations. In the long-term copartner ship Microsoft, HTC launched flagship products for each generation of the Windows, Windows Mobile and Windows Phones systems. With the cooperation with Google, HTC became world's first Android smart phone. Also ahead of the competition, HTC was firsthand company to launch 3G, 4G IMAX and LTE smart phone devices in the world. In product design, our belief in putting customer at the center leads to the birth of HTC Sense™. This user-centric perspective features an amazing camera that let users take pictures of continuous motion whenever they happen, take pictures Estill recording videos and capturing images while playing back videos. HTC also partnered with Beats Audio™ to provide high fidelity audio experience to the users.HTC believes that the new generations of smart phones are not only a communication but also an all-round mobile device that fulfills users' needs in entertainment, social networking, and personal lifestyle.HTC devotes itself to developing exciting Android and Windows Mobile devices enhanced functionality and experiences. Looking into the future, HTC will continue capture new market opportunities, strengthen the global business operation, and position itself as the number one smart phone brand to the consumers.

3.3 HTC brand

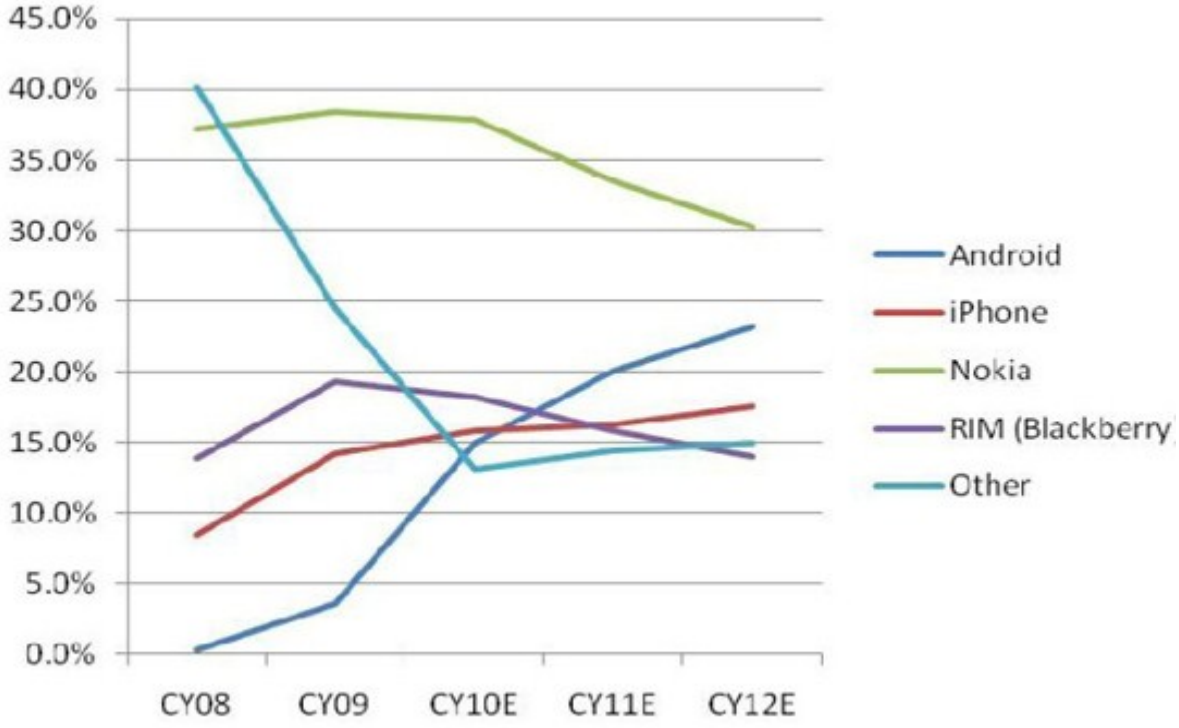
Quietly brilliant is deeply rooted within H TC's corporate culture. We continuously rollout phones with innovative features to satisfy needs of different consumers, changing the way they enjoy mobile lifestyle. By always putting customers at the center, HTC has repeatedly

taken HTC Sense to its leveled to delight and surprise consumers. Knowing that the most frequently used de feature the mobile phone is the camera, HTC built our camera that lets users take pictures while still recording a video and not miss any timeless moments. These pictures could carelessly project onto a television to share with friends and family. Users can also enjoy thousands of radio stations worldwide in the car through an HTC phonetic has been expanding its retail reach around the world. Consumers are now able to experience the latest HTC innovations first hand through our vast retail network. Among many awards HTC has received including the Best Mobile Phone Company abysmal (Global System for Mobile Association) in 2011, we were also named one of the “Best Global Brands" by Interbred. HTC believed 2011 was the year of the smart phones. The company launched a diversified product portfolio that met the needs of different consumers. Photoproducts like HTC Wildfire S, designed around youth preferences and lifestyles, and HTC Sensation, which emphasizes speed and cult-media performance, Successful expanded its market to an even broader group of consumers. As the world entered the 4G era, HTC continued to lead the industry by launching netherworld’s first LTE Android phone and LTE Windows phone. In our everyday life, images and sound are some of the most emotional elements. Automobile phones have become the primary device for recording precious moments. Capitalizing on this insight, in 2012, HTC took high performance mobile imaging Gandhi’s fidelity audio to the next level.

HTC has brought to consumers an amazing camera that previously could only achieved on a high-end digital camera. Understanding as a result of the frustration of having a perfect moment slip away, HTC created a phone camera that gets ready to take a shot with the speed of human reflex, focuses as fast as the human eyes blink, and captures continuous shots at an amazing speed. Sharing should be simple. Through an easy-to-set up accessory, HTC phones measurelessly project content onto any television. Users can now easily watch photos, video, movies in their phones on a big screen TV. From capturing to sharing, it provides a more personal experience. Committed to giving consumers authentic, high fidelity sound, HTC integrated Beatitude™, so consumers can feel the music the way artists intended.HTC changes how people Listerine to music in the car. With just one touch, users can easily access over 60,000 radio stations from 170 countries across the world. These quietly brilliant moments are examples of a holistic experience we calligraphy Sense™.

3.4 Industry introduction

Figure 3.1 Market shares of Mobile phone operating system brands in the five years



Souse: the financial data of Market shares of Mobile phone operating system is form the Annual Chinese electronic products magazine in 2011.

Compared with competitors is also important, as we all known, in the global mobile phone market; there exists extremely severe cruel competition. it is not too hard to know that The 2G mobile communication technology has been the main voice communications platform into 3G technology based mobile data services, the major carriers 3G network covered .Cover and continue to increase the amount of investment, coupled with handset manufacturers launched a strong function Interface friendly phone, driven by a wide range of mobile data services, consumer The congregation began to replace the general phone smart phone. Therefore, although the recession, smart phone industry retains good growth momentum, according to DC's Worldwide mobile phone tracking Quarterly estimates, when we take a look at Figure 3.1, with ranked compared to the first Nokia Symbion system, iPhone in terms of market share or slightly inferior, however, compared with the Nokia smart phone market share compared to the previous year fell by 5.5 percentage points, but still accounted for almost half

of the country (46.9%). MRI's Black Berry system in last year's market share improved 3.3% to 19.9%, second only to Saipan, ranked second. Looking at the overall data Saipan lose market share up to 5.5%, followed by Windows Mobile and Linux; iPhone to grab the maximum chassis, up to 6.2 percentage points, Blackberry and Android laps to the site about the same size, market share increased 3.3% and 3.4%. Since the financial year 2009, The Android market share increased significantly. as the chart shows us it increased very sharply .From the 4% to almost 20 %.Since the HTC phones are equipped Android system, so it is very benefited from the surge of market share in Andrew .this is the reason why the operating income and net income has increased so obviously from the year 2009.

3.5 cash flow statement of HTC

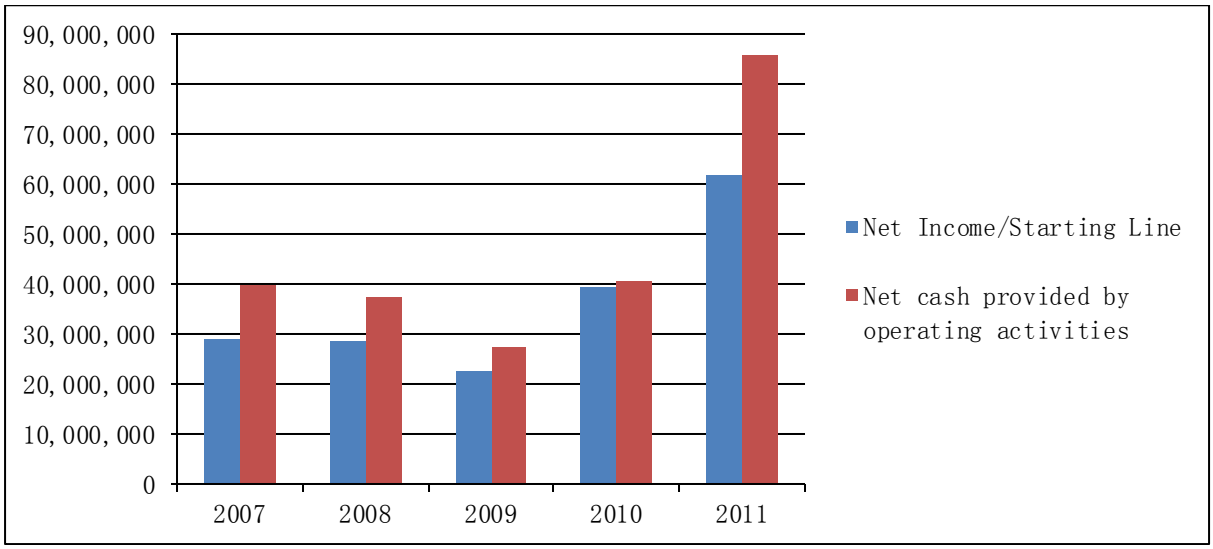
The official name for the cash flow statement is the statement of cash flows. The statement of cash flows is one of the main financial statements. (The other financial statements are the balance sheet, income statement, and statement of stockholders' equity.)Because the income statement is prepared under the accrual basis of accounting, the revenues reported may not have been collected. Similarly, the expenses reported on the income statement might not have been paid. You could review the balance sheet changes to determine the facts, but the cash flow statement already has integrated all that information. As a result, savvy business people and investors utilize this important financial statement.

Statement of operating cash flow[4]

The cash flows flow operating activity's section comes first and tells you how much cash the company generated from its core business, as opposed to peripheral activities such as investing and borrowing. This is the area that we should focus most of our attention on because it pains the best picture of how well a firm's business operations are producing cash that will ultimately benefit shareholders.)

[4] All the data of HTC Company's cash flow are in the Annex2. The current units are NT $

Figure 3.2 Absolute change of operating cash flow of HTC in 2007—2011



In corporate finance, free cash flow (FCF) is cash flow available for distribution among all the securities holders of an organization. As we can see from Figure 3.2, we can see in these five fiscal years, the cash flow from operating appears a increase trend. At the beginning in 2007, the net income is 28,917,712,with the increasing in the next four years, it reaches almost 61,795,796,it has increased nearly 114%,when it turns to the net cash provided by operating activisms, in general ,the trend of it is chasseing, except from the period from 2008 to 2009,in which it has declined from 37,594,155 to 27,541,608,later the situation turns to better, and the net cash provided by operating activities continues to grow.

3.6 Common size analysis of HTC[5]

We have introduced that in chapter 2, Common-size analysis is statement about the financial items which use a common reference item allows us to identify the trends and the differences of these items. A common-size analysis is especially useful when comparing companies of different sizes. It is often insightful to compare a firm to the best performing firm in its industry we will use common-size analysis to comparing financial statements of the

[5]In this part, all the data of HTC Company's balance sheet, income statement, and Cash flow are in the Annex2. The current units are NT$.

company from different time periods. It achieves these comparisons by measuring some part of a company's financial operations against the totality of the operations. By doing this, common size analysis reduces the raw numbers to percentages that allow for much easier comparison between companies and across time. This method of analysis may be performed on either income statements or balance sheets, but it is only as accurate as the accounting practices used to come up with the numbers.

3.6.1 Vertical common size analysis

Vertical analysis is just one technique that financial managers use to analyze their financial statements. It is not another type of income statement. It is just a tool that is used to analyze the income statement. Common size income statement analysis is stating every line item on the income statement as a percentage of sales. If you have more than one year of financial data, you can compare income statements to see your financial progress. This type of analysis will let you see how the revenues and the spending on different types of expenses change from one year to the next.

Table 3.1 Vertical Common-size analysis of Income Statement

Revenues	100.00%	100.00%	100.00%	100.00%	100.00%
Cost of revenue	66.12%	66.81%	68.34%	71.08%	73.69%
Gross profit	33.88%	33.19%	31.66%	28.92%	26.31%
Total operating expenses	8.12%	13.39%	14.99%	13.46%	11.89%
Total non-operating expenses and losses	0.17%	0.61%	0.45%	0.11%	0.03%
Operating income	25.75%	19.83%	16.69%	15.38%	14.25%

Total non-operating income and gains	1.53%	1.51%	1.12%	0.92%	1.11%
Income tax	2.79%	2.09%	1.92%	1.98%	2.01%
Net income	24.39%	18.72%	15.61%	14.37%	13.69%

In Table 3.1, we can find how many percent these items accounts for the total revenues in the income statement, we will see that cost of revenues is continuous in the growth, while on the other hand, gross profit is continuous in the decline, we will see in 2007, the proportion of gross profit accounts for the total revenues is 33.88%, in 2010, it has dropped to 26.31%, and when we analysis this table ,it won't be difficult to find out that in this five years, the proportion of the cost is increase while on the contrary the income's proportion is shrinking. We will see that no matter operating and no operating income is decrease. So it leads to the net income's proportion accounts for the total revenue will decrease. In 2007, the percentage is 24.39%, and in 2011, it is only 13.69%.

Figure 3.2 Absolute amount of Income statement of HTC 2007—2011 (the units are NT$ thousands)

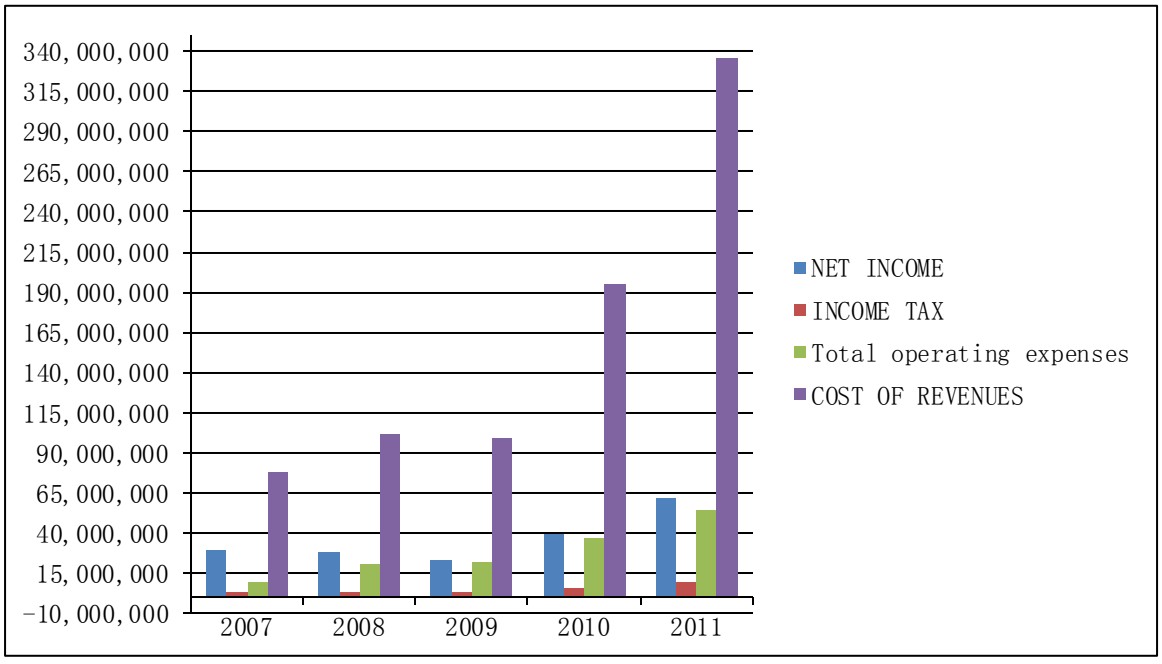
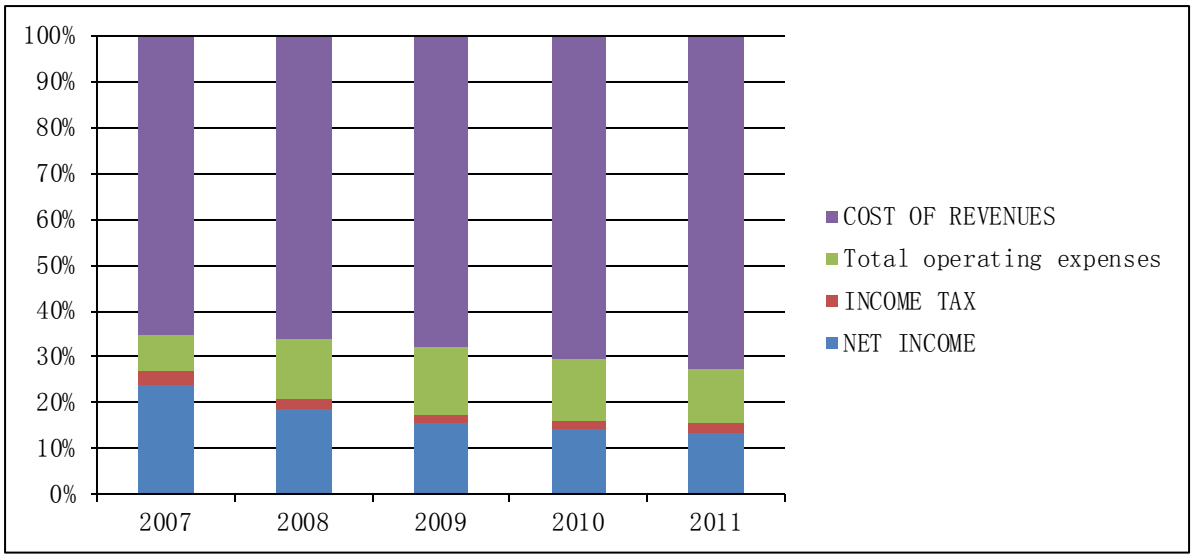


Figure 3.3 Vertical Common-size analysis of Income Statement of HTC 2007—2011



Cost of Revenue is found in the income statement under operating expenses. Companies can exercise quite a bit of flexibility in defining what constitutes cost of revenue. In principle, any costs that are directly attributable to production and distribution of goods can be counted as cost of revenue. The term does not include indirect costs such as salaries, depreciation or other fixed costs .in Figure 3.3 we can see how the proportions changed over the years. The proportion of cost of revenues has been continued to increasing. As we can see, at the year 2007, the proportion is approximately 65%, and eventually in the year 2011, it has raised to 73%.Furthermore, when we pay our attention focusing on the net income, it will not difficult to find out the proportion of the net income has decreased contentiously. In these five years, the proportions are 24%, 19%, 15%, 14% and 14% respectively the year 2007 to 2011.

Figure 3.4Liabilities and equity of HTC 2007—2011 (the units are NT$ thousands)

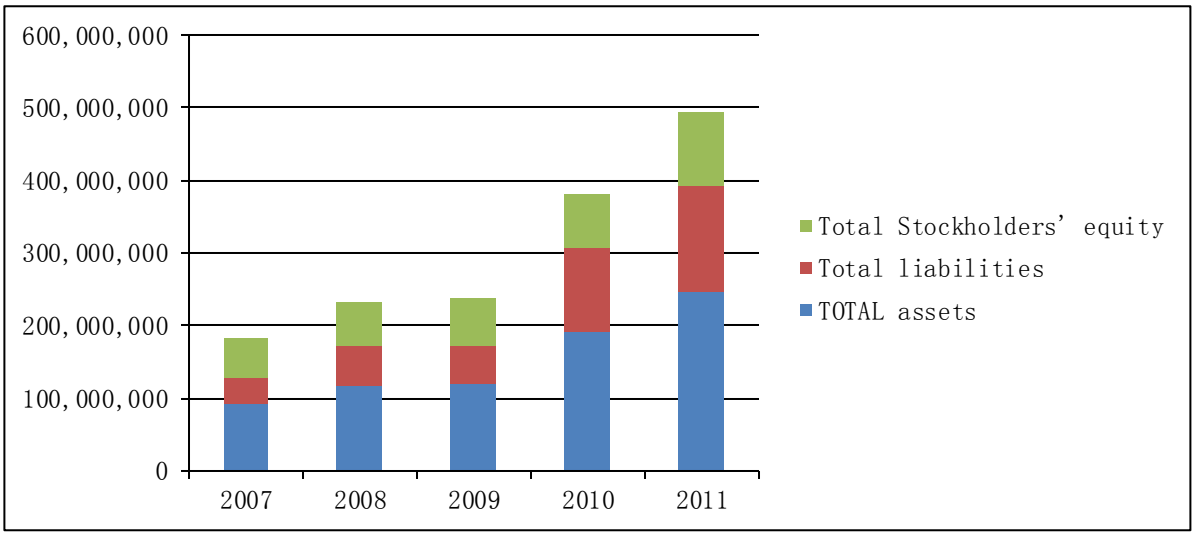
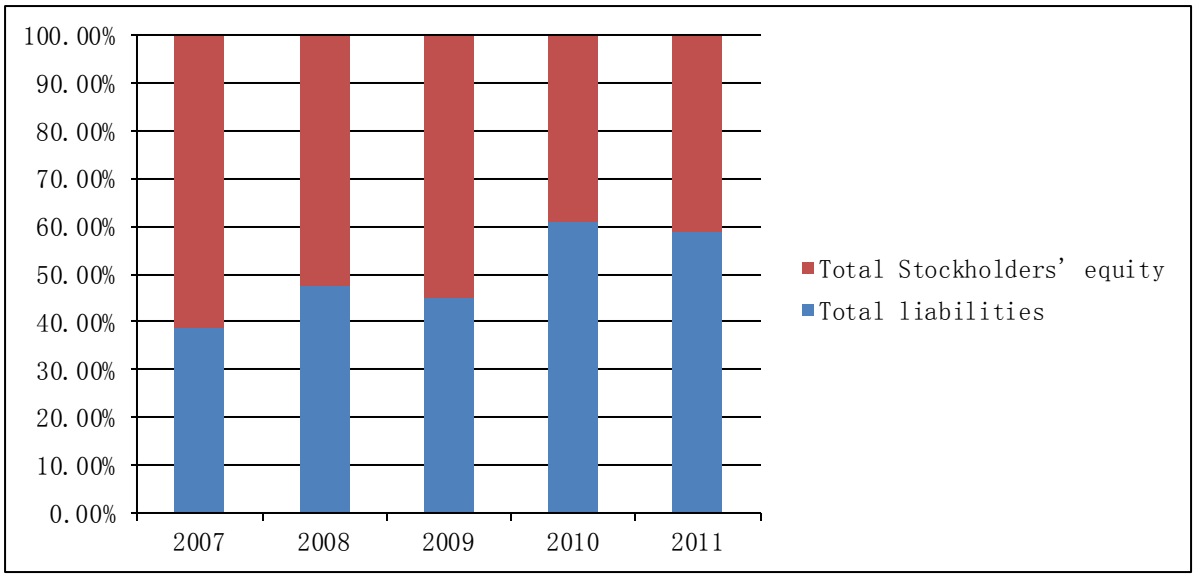


Figure 3.5 Capital structure of HTC company in 2007—2011



The Figure 3.4 and Figure 3.5 has clearly presented a balance interests among total assets, allow ability and total equity. We can analysis the capital structure of HTC Company. Capital structure refers to the distribution of long-term liabilities and equity. Optimal capital structure is the largest shareholder wealth or stock capital structure, which largely determine the debt service and refinancing ability to determine the future profitability of the enterprise, the financial situation of enterprises important indicators. Reasonable financing structure can reduce the cost of financing, regulation, finance leverage, to enable enterprises to get more of

its own capital gains rate. The fluctuation of the proportion of the total liabilities and total equity accounts for the total assets is not so greater. Overall, the total liabilities, which the proportion shares account for the total assets has been increasing. Except from the fiscal year 2008 to 2009, which experienced a very inconspicuous, approximately from 47% to 44%.In the other fiscal years the total liabilities are shows an increase trend, at the start point in the year 2007, disproportionate is close to 48%, while in the end point in the year 2011, approached to 59%.

3.6.2 Horizontal common-size analyses

Horizontal Common Size Income Statements demonstrates how to express the financial statements in each year as a percentage of a given base year. This permits an investor to see if certain expenses, assets or liabilities are growing faster than others. Horizontal analysis is the time series analysis which is using for analysis the trend and the growth in account over the period of time. We use horizontal analysis to analyze in term of profitability, investment and financing. And also we can use the percentage result to compare the companies by scale each account.

Figure 3.6 Horizontal common-size analyses (total assets) (the units are NT$ thousands)

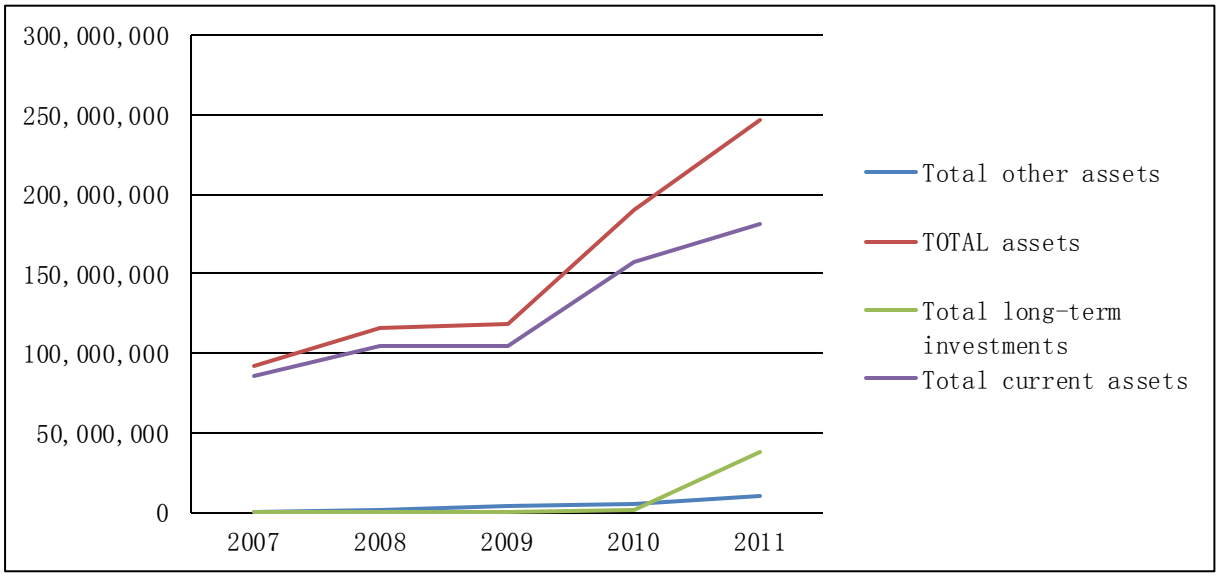
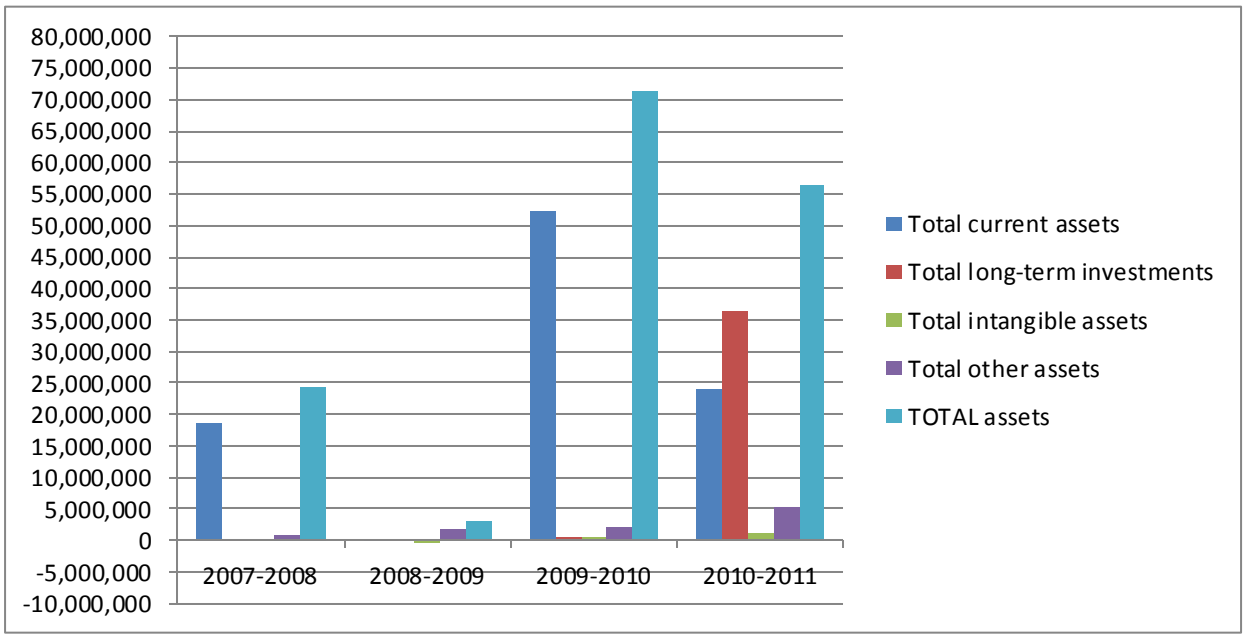


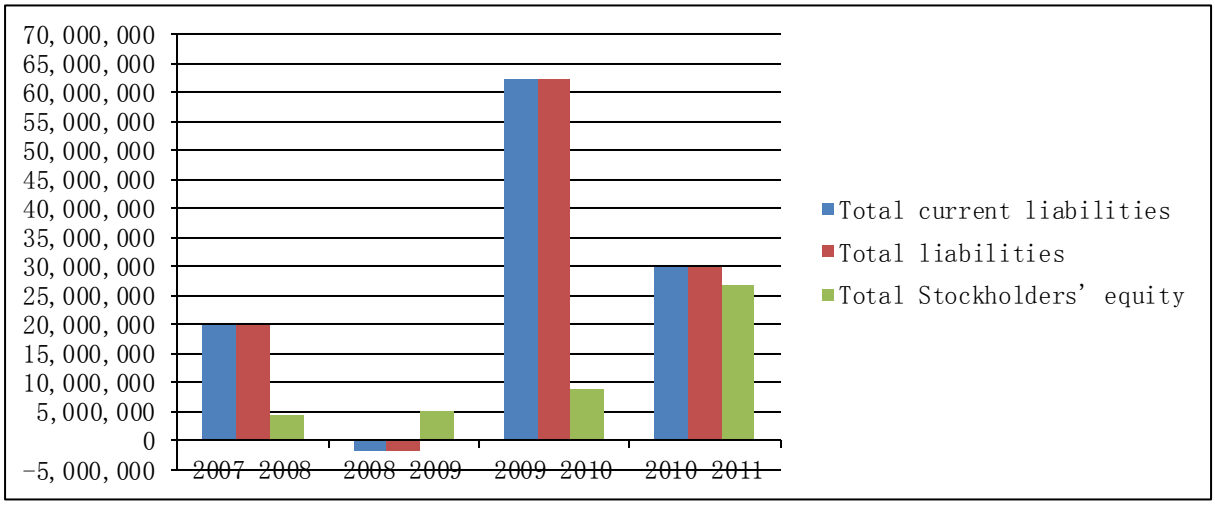
Figure 3.7 Absolute change of assets of HTC 2007—2011 (the units are NT$ thousands)



In Figure 3.6 the assets are increasing in these five annual years. It is has obviously shows that the total assets has experienced a rising process. Remarked since the year 2009, it has been showed from the graph that the slope of the total assets curve has been converted to very sharply slope .furthermore, the graph informs us that total assets has several specific constituent part, total current assets, total long-term instatements, total intangible assets total other assets. Some of these components May plays extradite small impact on the total assets, such as the total other assets, but we take in consideration any affecting factors. On the contrary, the total current assets have a great impact affecting the total assets, because we can find the variation tendency of the total current assets curve and the total assets curve almost as a pair of parallel lines. In this Figure 3.7, absolute change of assets we can see the absolute change about assets parts in each fiscal period. As for the whole change of total assembles, this chart revealed the total assets is increase every fiscal year. Ruing the period 2009-2010, and 2010-2011, the increasing amount is extra regular. Both are over than 50,000,000thousands NT $.while during the fiscal period 2008-2009, the absolute increasing is smaller compared with other fiscal period. As we can see in the graph1,from the year 2007 – 2009，the change of total assets is beyond a very narrow range. it is clearly demonstrated by

the graph that the trend of the total intangible, total other assets, total properties and total long-term investments are very stable during the period 2007-2009, according to the annual report by the HTC company, we can conclude that during the year 2007-2009, the financial crises has its impact on it. but compared to other business area or the competitor in the same filed. Because HTC has grasped the opportunity to develop and manufacturing the smart phones, and it is really welcomed by the market and customs. Then with the crises over, we can see in the period 2009-2011, Accompany has experienced a dramatically increasing. We need to particularly focus on the financial year 2010.From the upper two graphs; we can conclude that the year2010 is a crucial financial year for HTC Company. Assets growths speed is very rapidly. When we try to invest what the reasons has contribute to this growth. When we doing a investigation we will know that in 2010 the company doubled operating scale, moreover the global sells has doubled as well, therefore every indicator has changed very quickly. In the first place ,it is Financial liabilities ability structure aspect, in financial year 2010,HTC company has successfully increased its debt to asset ratio to 61%,the liquidity ratio has decreased to 146% and the quick ratio has decreased to 120%,Main system for operating High-growth drive related subjects the increase of the amount of current liabilities. In second place, it is the operating capacity, Benefit from the high growth of operating income, the fixed asset turnover, total asset turnover increased over the previous year. Average collection days slightly decreased to 59 days compared with 2009, average Sales days increase to 36 days, mainly due to strong market demand and higher inventories stood at the end of 2010 due to a substantial increase in the amount of inventory in transit so. And the third place is that profit ability, HTC's innovation and brand value gradually affirmed by the consumer, and in 2010 launched a number of flagship product to create a sales success, operating income growth of 93%, after-tax profit growth75%, both record highs, and earnings per share up to 48.49 Yuan, operating profit and pre-tax profit to paid-in capital ratio also increased to 540% and 550%, respectively, owned Production rate of returns and return on equity were 37% from 21% in 2009 and increased to 26% and 56%.

Figure 3.8 Absolute change of liabilities and equity of HTC 2007—2011 (the units are NT$ thousands



In Figure 3.8 we can see the absolute change of the total liabilities and total equity during the time period 2007 to 2011, as we have already analysis about the assets, liabilities and equity are the other two component parts with assets that make up of the balance sheet. And why the changes represents this trend in several points, it shares almost the same reason as the assets .In general, the absolute change of total liabilities and total equity reveals the growing tendency. Apart from the financial year 2008-2009, both total current liabilities and total liabilities are declined about 2,000,000NT$.

4 Financial ratios analysis

This chapter is using the financial methods which are introduced in chapter two to analysis the HTC Company's financial performance during the year 2006 to 2011, so two main parts are being included: ratio analysis, and the DuPont analysis. All the dates I used in this chapter are according to the annual reports of HTC. It will illustrate in the—Annex 1 and Annex 3 as well .The first part is ratios analysis, it will introduce some ratios about HTC Company and in which these given ratios, and we will especially lay stress on profitability ratios. The analyst will use his or her discretion when choosing a particular timeline; however, the decision is often based on the investing time horizon under consideration. Ratios can be classified into several types, based on the dimension of the company's performance and conditions. Because of the lack of some dates, we will compare profitability ratio and liquidity ratio of Apple and Blackberry.

4.1.1 Profitability ratios

The first financial ratio analysis is profitability ratios; it will assist us to measure the ability of the firm to earn an adequate return on sales, total assets, and invested capital. Many of the problems related to profitability can be explained, in whole or in part, by the firm's ability to effectively employ its resources. The gross profit margin looks at cost of goods sold as percentage of sales. This ratio shows how well a company controls the cost of inventory and the manufactory of its products and subsequently passes on the cost to its customer. The larger the gross profit margin, the better of the company and see formula (2.7) Net profit margin is The net profit margin shows how much revenue shows up as net income after all costs are paid. The net profit margin measures profitability that after consideration of all expenses, which including taxes, interest, and depreciation and see formula (2.6) Operating profit margin. Return on assets is an indicator of how profitability a company is before leverage, and is compared with companies in the same industry. Since the figure for total assets of the company depends on the carrying value of the assets, some caution is required for companies whose carrying value may not correspondence to the actual market value. Return on assets is

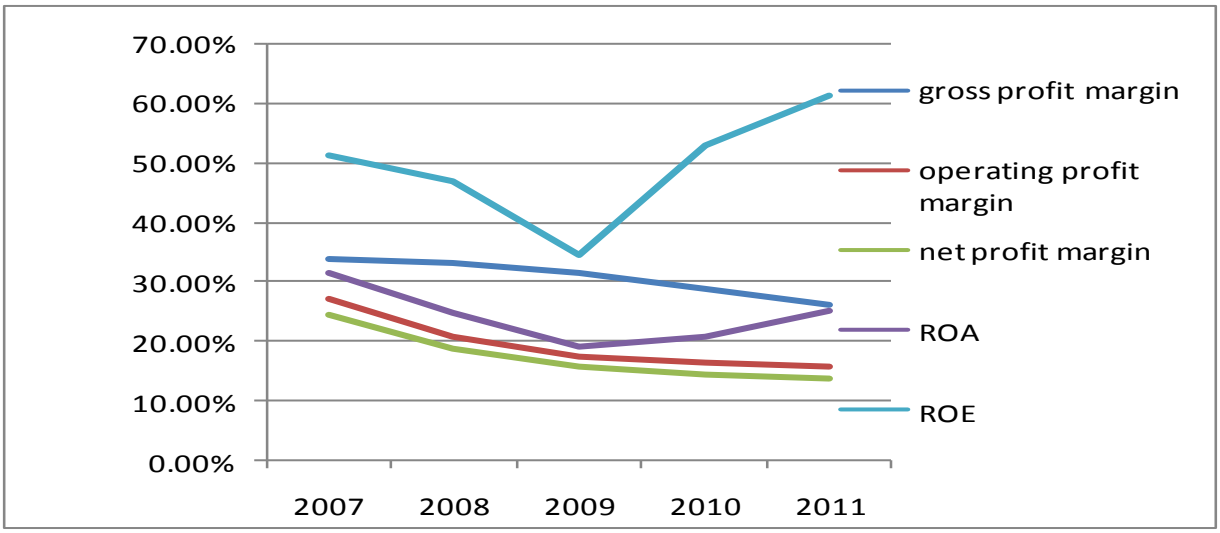
a common figure used for comparing performance of financial institutions, because the majority of their assets will have a carrying value that is close to their actual market value. See formula (2.8) the amount of net income returned as a percentage of shareholders equity. Return on equity measures a corporation's profitability by revealing how much profit a company generates with the money shareholders have invested.Net income is for the full fiscal year (before dividends paid to common stock holders but after dividends to preferred stock.) Shareholder's equity does not include preferred shares. See formula (2.9)

Table 4.1 Profitability ratios of HTC company (the units are NT$ thousands)

	2007	2008	2009	2010	2011
gross margin	40,177,500	50,641,854	45,862,483	79,556,972	119,754,046
operating income	32,231,936	31,735,716	25,396,412	44,964,388	71,423,687
net income	28,917,712	28,552,526	22,614,413	39,514,844	62,299,048
sales revenue	118,579,958	152,558,766	144,880,715	275,046,954	455,079,186
gross profit margin	33.88%	33.19%	31.66%	28.92%	26.31%
operating profit margin	27.18%	20.80%	17.53%	16.35%	15.69%
net profit margin	24.39%	18.72%	15.61%	14.37%	13.69%
total assets	91,416,481	115,742,410	118950523	190,381,744	246,906,086

total equity	56,187,298	60,690,182	65,674,657	74,714,494	101,426,596
ROA	31.63%	24.67%	19.01%	20.76%	25.23%
ROE	51.47%	47.05%	34.43%	52.89%	61.42%

Figure 4.1 Profitability ratios of HTC Company



In Figure 4.1, it shows the trends of the margin of HTC Company in these five years, from the graph 4.1, we will see all this indicators was decreasing in the overall trend except the ROE ratio. As we have already introduced that the higher is the profitability ratio, the better is the company operating condition. Generally speaking, during this period ,HTC company's ability to earn an adequate return on sales, total assets, and invested capital was becoming week .But we have to especially make our eyes on ROE ratio, compared with the other profitability ratios, during the year 2009 -2011, ROE ratio of HTC company has underwent a remarkable rise trend. We can see table 4.1 that in 2009, the ROE ratio is 34.43%, after a year in 2010,the ROE ratio is 52.89%, then in the last year 2011, the ROE ratio has increased to 61.42%. From 2007-2009, net profit of the company have declined. Particularly 2008-2009, we can see in table 4.1 and see that net income in 2008 is 28,522,526, and in 2009 are

22,614,413 because of the global financial crisis. On the contrary While the equity from 2007-2009 has been continued growing. This is the reason why ROE decrease in this period. As for the period 2009-2011, As a result of the financial crisis is over, the operating condition of the HTC company was starting to get better and contributed to HTC company has made a lot of innovation and increased market share .and it shows in the table, we will see that the net profit in 2009 is 22,614,413, and in 2011, It almost has increased by three times to reach 62,299,048. Although the equity increase as well in 2009-2011, Compared with the growth of net income, this growth is too small. So this is the reason why ROE increase a lot. As for these margins, it generally has the same trend. During this time period, gross profit margin, operating profit margin and net profit margin all this margins are declined. At the beginning in 2007, the gross profit margin is 33.88%, the operating profit margin is 27.18%, and the net profit margin is 24.39%. With five years passing by, at the end in 2011, the gross profit margin is 26.31%, the operating profit margin is 15.69%, and the net profit margin is 13.69%. And it is because the Changing trends of the total revenues and total costs. So even though in the whole trend, the sales is increasing, but relatively, the costs of the company grows rapidly than revenues .There are several reason that leading the growth of the costs, HTC company has so many factories in mainland China, Labor costs rise, especially in China's factory workers wages increased. Global economic integration, inflation caused the costs increasing. So the scales of the sales increasing is much more slower than the scales of costs increasing ,this is why gross profit margin, net profit margin and operating profit margin presents a decline trend.

Figure 4.2 Profitability ratios of Apple Company

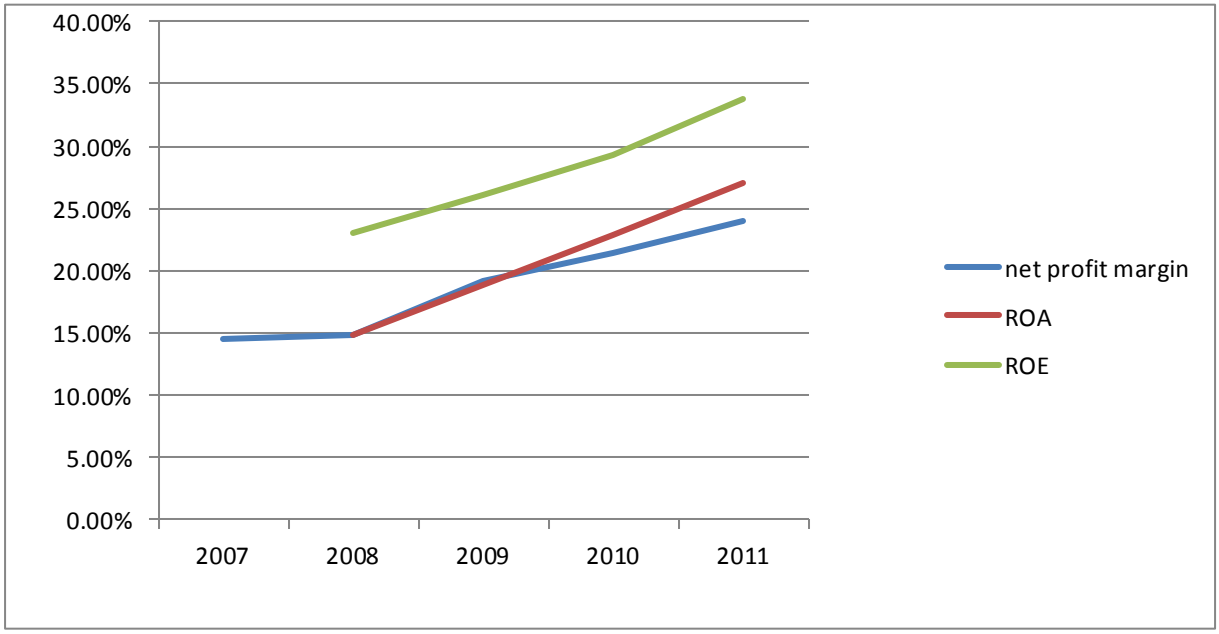


Figure 4.3 profitability ratios of Blackberry Company

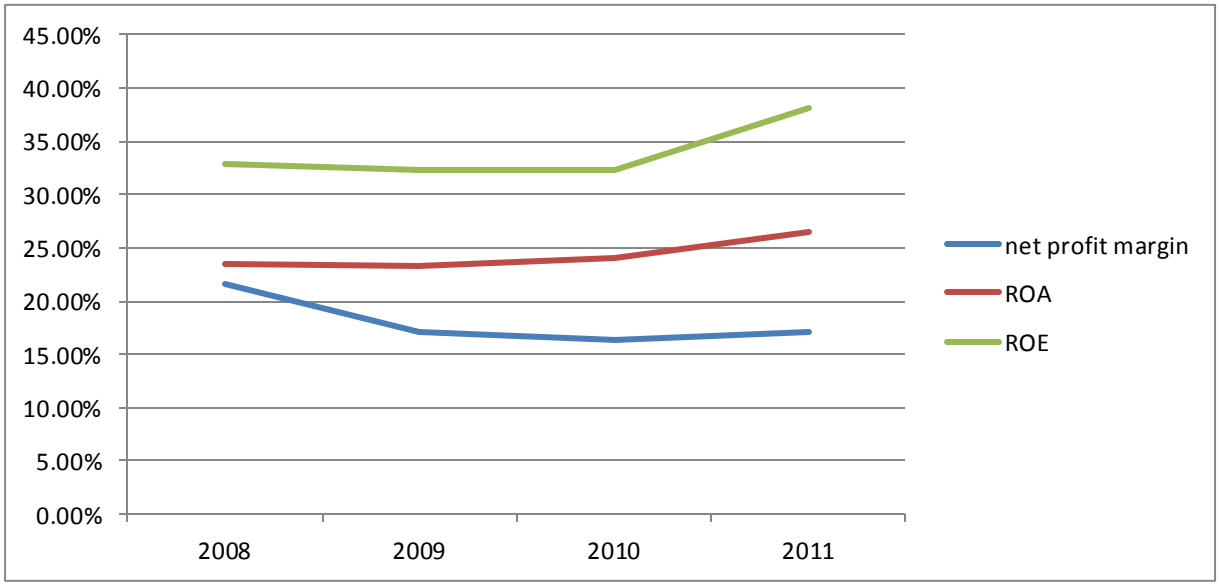


Table 4.2 Market shares of Mobile phone operating system brands in2008 and 2009

brand	2009	2008

Symbion	**46.9**	**52.4**
Research in motion	**19.9**	**16.6**
Diphone os	**14.4**	**8.2**
Microsoft windows phone	**8.7**	**11.8**
Linux	**4.7**	**7.6**
Android	**3.9**	**0.5**
Mebos	**0.7**	**NA**
Other Ass	**0.6**	**2.9**
Total	**100**	**100**

Compared with competitors is also important, as we all known, in the global mobile phone market; there exists extremely severe cruel competition. And we will take Apple and Blackberry Company to compare with HTC. Return on assets is an indicator of how profitability a company is before leverage, and is compared with companies in the same industry. Since the figure for total assets of the company depends on the carrying value of the assets, some caution is required for companies whose carrying value may not correspondence to the actual market value. In other words, it is the rate of return on total assets. We have known from table 4.1 the revenues and the gross profits are rising. As this graph indicates to us, the absolute raise from the year 2007 to 2009 is rarely. The same reason as we have analysis about the total assets of HTC company **.**it is as a result of the financial crises and the force market competition in this mobile communication devices area. And the year 2010, it is the turning point .The revenues in the year 2010 almost doubled compared with the year 2009 and reached over 200,000,000 thousands NT$. And also in the year 2011, the increasing speed is dramatically incredibility .it has doubled then the year 2010, and it reached over 4000,000,000 thousands NT$, then focus on the gross profit, it follows the growth trends of the revenues. And in the year 2011, the gross profits goes to around 100,000,000 thousands of the NT $.

4.1.2 Liquidity ratios

Liquidity ratio is a class of financial metrics that is used to determine a company's ability to pay off its short-terms debts obligations. Generally, the higher the liquidity ratio, the larger the company will meet its short-term debts. Common liquidity ratios include the current ratio, the quick ratio and the operating cash flow ratio. Different analysts consider different assets to be relevant in calculating liquidity. Some analysts will calculate only the sum of cash and equivalents divided by current liabilities because they feel that they are the most liquid assets, and would be the most likely to be used to cover short-term debts in an emergency.

A company's ability to turn short-term assets into cash to cover debts is of the utmost importance when creditors are seeking payment. Bankruptcy analysts and mortgage originators frequently use the liquidity ratios to determine whether a company will be able to continue as a going concern. Cash ratio is calculated based on the formula (2.17), quick ratio is based on the formula (2.18) and current ratio is calculated based on the formula (2.19).

Table 4.3 Liquidity ratios of HTC Company 2007-22011 (the units are NT$ thousands)

	2007	2008	2009	2010	2011
Total current assets	85,728,511	104,256,70	104,422,38	156,875,06	180,772,17
Total current liabilities	35,152,925	54,998,933	53,250,281	115,641,10	145,478,86
current ratio	2.4387305	1.8956131	1.9609734	1.3565684	1.2426009
Inventories	7,237,231	8,250,337	5,557,713	26,413,747	25,389,320
cash and cash equivalents	56,490,185	64,237,728	64,638,290	74,462,861	78,872,320

Notes receivable, net	**3,532**	**26,009**	**27,125,609**	**61,614,355**	**736,031**
quick ratio	**2.2328520**	**1.7456041**	**1.8566379**	**1.1281570**	**1.0680785**
short term investments	**1,567,761**	**1,285,483**	**3,341,649**	**2,653,778**	**7,041,087**
cash ratio	**1.6515822**	**1.19135422**	**1.27661183**	**0.66686184**	**0.59055594**

Figure 4.5 liquidity ratio of HTC Company

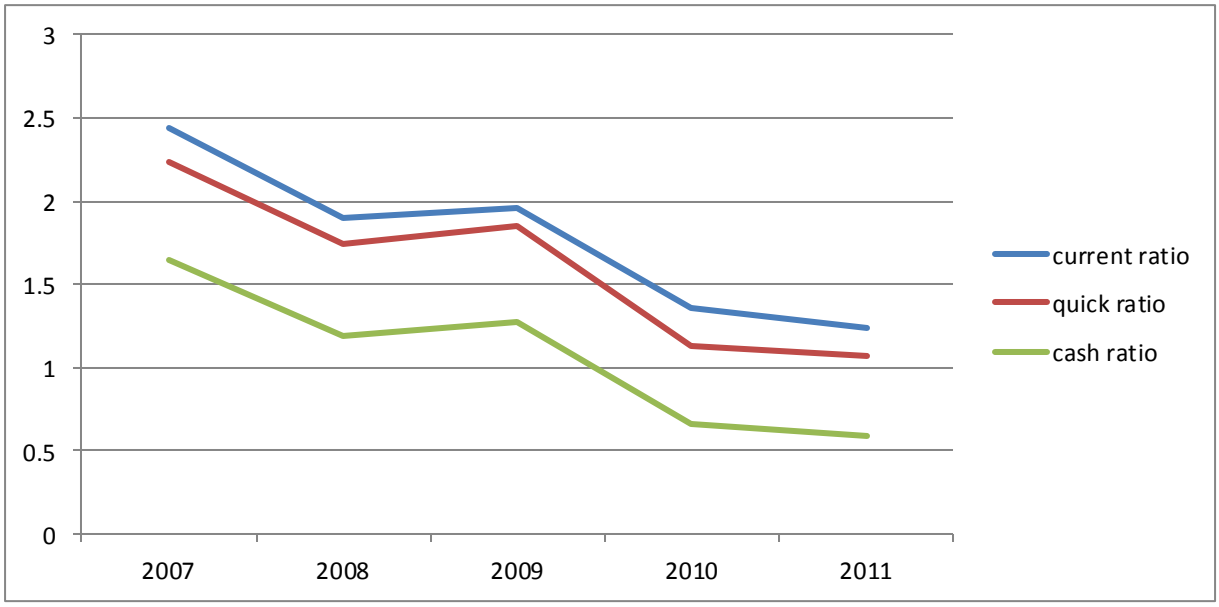


Figure 4.6 current ratio of HTC Company

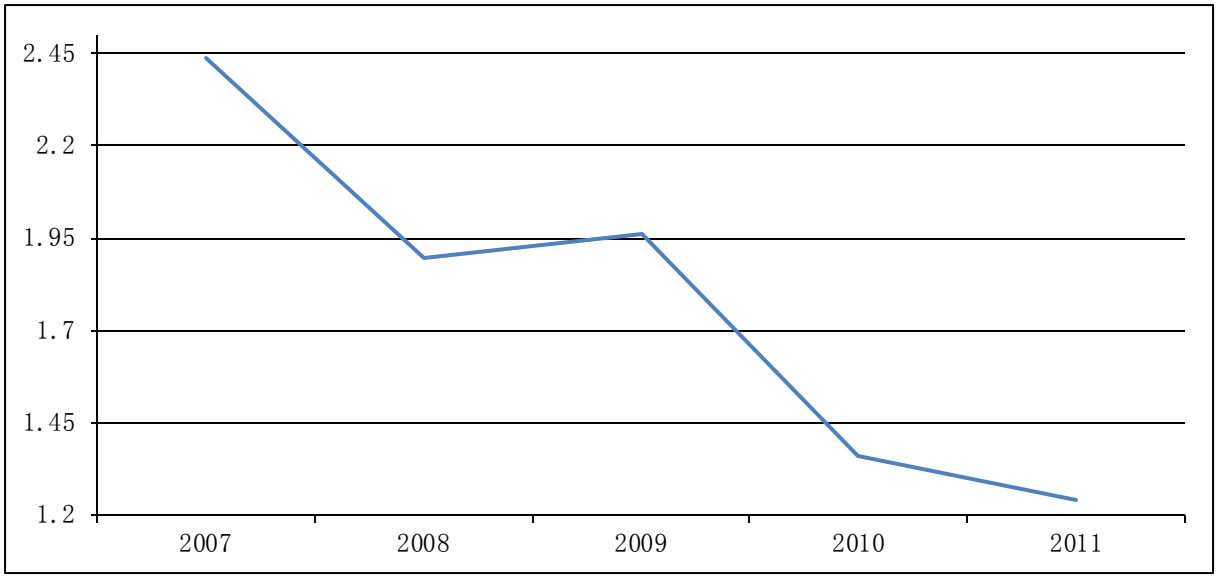


Figure 4.7Current ratio of Apple Company

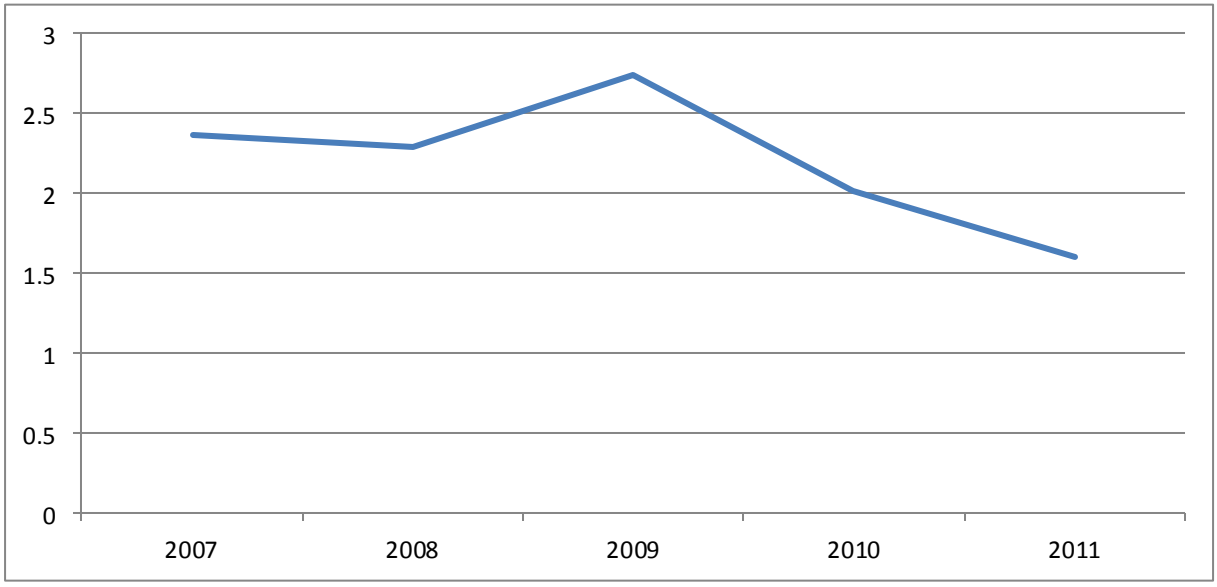
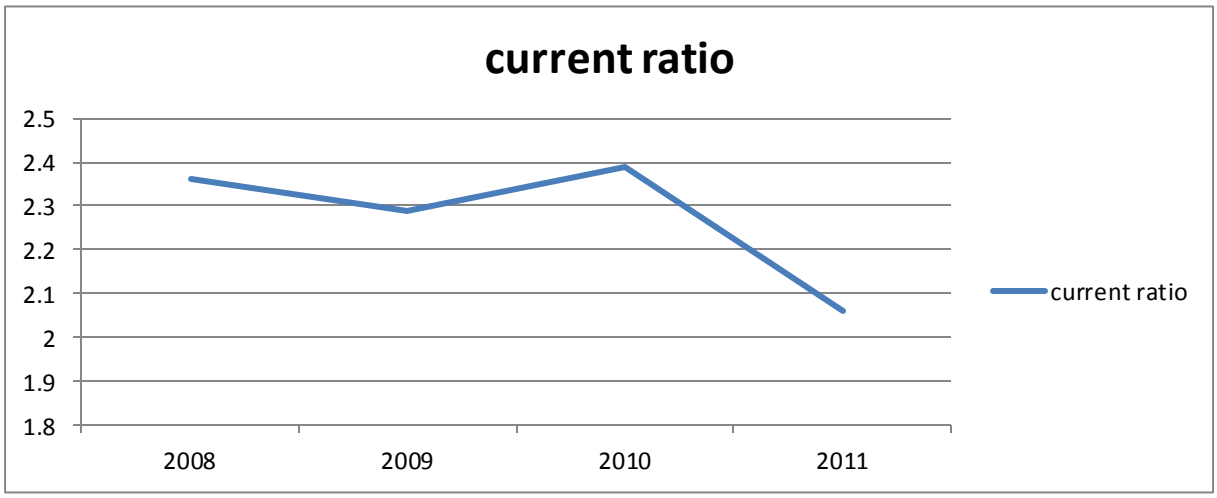


Figure 4.8 Current ratio of Blackberry Company



In Figure 4.6, the current ratio presents a downwards slopes it has clearly exhibited to us at the beginning in the fiscal year 2007,the current ratio is nearly 2.44,then one years after in the year 2008,it has down to below 2,it is only 1.9,then with the time passing, by the year 2011,it finally became only 1.25%.and another very significant information we ought to capture is that in all these fiscal period, during the year 2007 to the year 2011,the current ratio is always bigger than one. It means that HTC Company has a relatively healthier financial condition which means it have enough ability to repay its debt. So it has shown that the company has too much current assets such as cash and account receivable as well. Acceptable current ratios vary from industry to industry and are generally between 1.5 and 3 for healthy businesses. If a company's current ratio is in this range, then it generally indicates good short-term financial strength. If current liabilities exceed current assets (the current ratio is below 1), then the company may have problems meeting its short-term obligations. If the current ratio is too high, then the company may not be efficiently using its current assets or its short-term financing facilities. This may also indicate problems in working capital management. Compared Figure 4.5, Figure 4.6 and Figure 4.7, we will see that HTC company short-term financial strength is not so well as Apple company and Blackberry company. Because since 2009, the current ratio of HTC Company dropped so many, in 2010 and 2011, it is below the acceptable current ratio range. It is nearly 1.2 at 2011. When we date back to the table 4.2, we will know that the current liabilities grow very faster than the speed of the current assets.

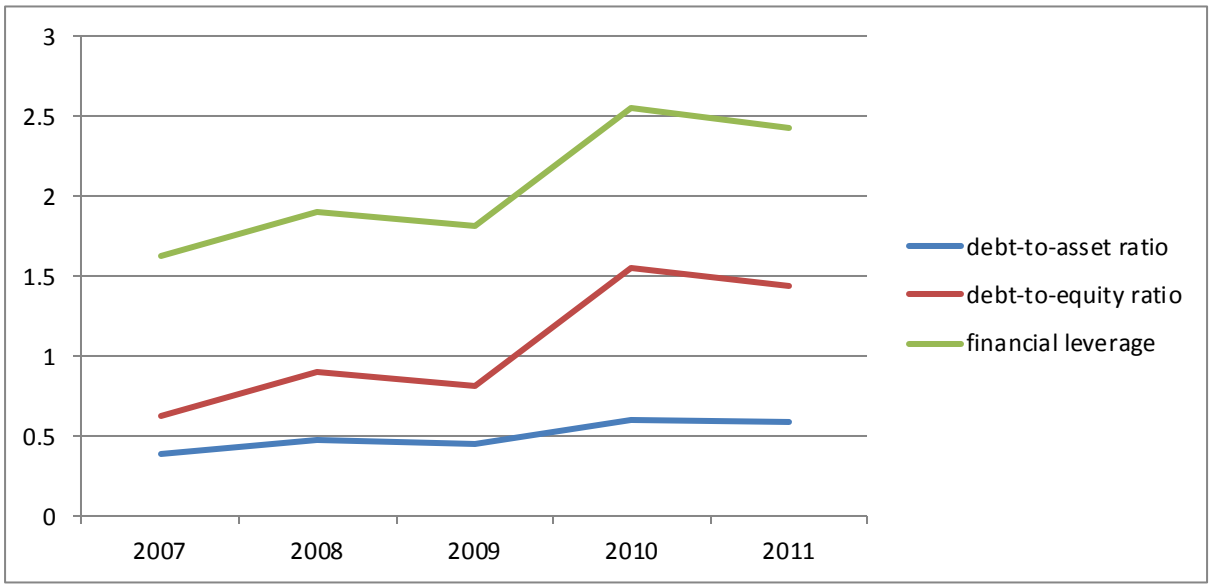
4.1.3 Activity ratios

Activity ratios are used to measure the relative efficiency of a firm based on its use of its assets leverage or other such balance sheet items. These ratios are important in determining whether a company's management is doing a good enough job of generating revenues, cash, etc. from its resources. Debt-to-asset ratio is calculated based on formula (2.10), debt-to-equity ratio is calculated based on formula (2.11), long-term-debt to equity ratio is based on the formula (2.12) financial leverage ratio is calculated based on formula (2.13)

Table 4.4 Solvency ratios

	2007	2008	2009	2010	2011
total assets	**91,416,481**	**115,742,410**	**118950523**	**190,381,744**	**246,906,086**
total liabilities	**35,229,183**	**55,052,228**	**53,275,866**	**115,667,250**	**145,479,490**
Total Stockholders' equity	**56,187,298**	**60,690,182**	**65,674,657**	**74,714,494**	**101,426,596**
debt-to-asset ratio	**0.38537015**	**0.47564439**	**0.44788257**	**0.607554315**	**0.589209818**
debt-to-equity ratio	**0.6269955**	**0.907102701**	**0.8112089**	**1.548123313**	**1.434332766**
financial leverage	**1.6269955**	**1.907102701**	**1.8112089**	**2.548123313**	**2.434332766**

Figure 4.9 Solvency ratio of HTC Company



The solvency ratio is a measure of the risk an insurer faces of claims that it cannot absorb. The amount of premium written is a better measure than the total amount insured because the level of premiums is linked to the likelihood of claims. The higher the ratio, the greater risk will be associated with the firm's operation. In addition, high debt to assets ratio may indicate low borrowing capacity of a firm, which in turn will lower the firm's financial flexibility. Like all financial ratios, a company's debt ratio should be compared with their industry average or other competing firms.

Total liabilities divided by total assets. The debt/asset ratio shows the proportion of a company's assets which are financed through debt. If the ratio is less than 0.5, most of the company's assets are financed through equity. If the ratio is greater than 0.5, most of the company's assets are financed through debt. Companies with high debt/asset ratios are said to be "highly leveraged," not highly liquid as stated above. A company with a high debt ratio (highly leveraged) could be in danger if creditors start to demand repayment of debt. Let us see the table 4.4 and Figure 4.9, in the first three years in this period, the debt-to-asset ratios are less than 0.5, which means HTC company's assets are financed through equity. The most obvious risk of leverage is that it multiplies losses. A corporation that borrows too much money might face bankruptcy or default during a business downturn, while a less-levered corporation might survive. In Figure 4.9, the debt-to-equity ratio and financial leverage ratio

are a horizontal line, which means that HTC these two ratios are really related. A high debt/equity ratio generally means that a company has been aggressive in financing its growth with debt. This can result in volatile earnings as a result of the additional interest expense. So it consistent with the front, we have analyze that after 2009, the HTC company's debt-to-asset ratio is below 0.5,which means the company is mainly financed by debt, which has increase the operating risk.

4.1.4 Turnover ratios

Total assets turnover ratio

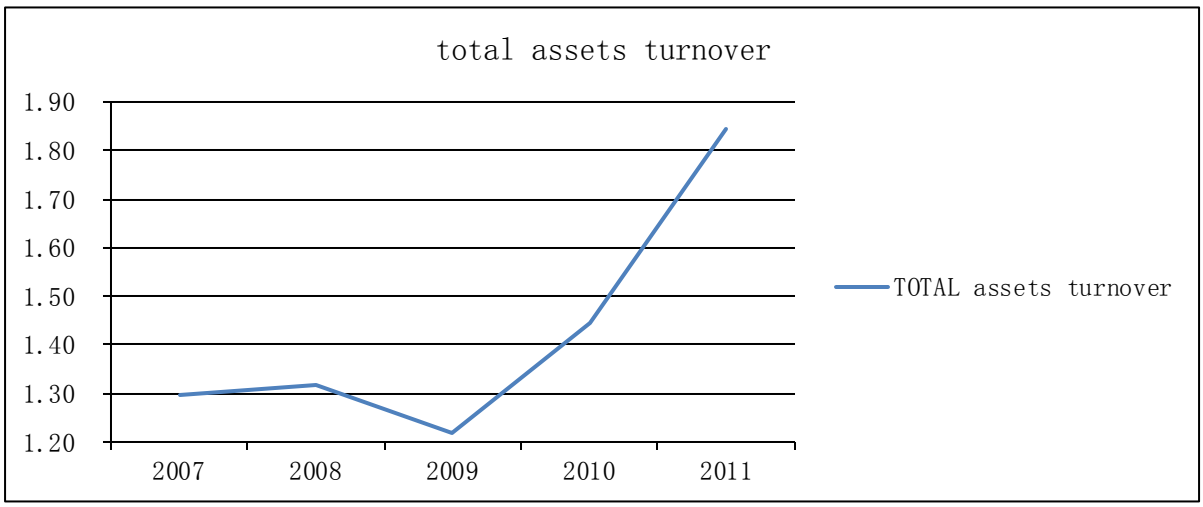
The total asset turnover ratio measures the ability of a company to use its assets to efficiently generate sales. This ratio considers all assets, current and fixed. Those assets include fixed assets, like plant and equipment, as well as inventory, accounts receivable, as well as any other current assets. The lower the total asset turnover ratio, as compared to historical data for the firm and industry data, the more sluggish the firm's sales. This may indicate a problem with one or more of the asset categories composing total assets - inventory, receivables, or fixed assets. The small business owner should analyze the various asset classes to determine in which current or fixed asset the problem lies. The problem could be in more than one area of current or fixed assets.

And see formula (2, 15)

Table 4.5 Total assets turnover ratio of HTC in 2007—2011

Fiscal year of ending	2007	2008	2009	2010	2011
Total assets turnover ratio	1.30	1.32	1.22	1.44	1.84

Figure 4.10 Total assets turnover ratio of HTC in 2007—2011



In Figure 4.10,according to the theory we have introduced, the higher the total asset turnover ratio, as compared to historical data for the firm and industry data, the less sluggish the firm's sales. . This total assets turnover ratio has a dramatic growth. in the year 2007,this ratio is 1.30,A year later, 2008 arrives, the ratio has climbed to 1.32,while next year 2009 is the strongpoint, with small decline came to 1.22,then after 2009,the ratio starts soaring. In 2010, the ratio reaches 1.44, and finally in the year 2011, the ratio is 1.84.Since current assets also include the liquidity ratios, such as the current and quick ratios, a problem with the total asset turnover ratio could also be traced back to these ratios. It has proved that HTC Company a more and healthier operating condition.

4.2 DuPont analysis (decomposition of ROE)

Return on equity

The amount of net income returned as a percentage of shareholders equity. Return on equity measures a corporation's profitability by revealing how much profit a company generates with the money shareholders have invested.Net income is for the full fiscal year (before dividends paid to common stock holders but after dividends to preferred stock.) Shareholder's equity does not include preferred shares. In this part, we will use a logarithmic decomposition method enable to analyze indicators, whose change have cause change in the

basic ratio, see the formula According to DuPont analysis. The DuPont formula, also known as the strategic profit model, is a common way to break down ROE into three important components. Essentially, ROE will equal the net margin multiplied by asset turnover multiplied by financial leverage. Splitting return on equity into three parts makes it easier to understand changes in ROE over time. For example, if the net margin increases, every sale brings in more money, resulting in a higher overall ROE. Similarly, if the asset turnover increases, the firm will generates more sales for every unit of assets owned, again resulting in a higher overall ROE. Finally, increasing financial leverage means that the firm uses more debt financing relative to equity financing. Interest payments to creditors are tax deductible, but dividend payments to shareholders are not. Thus, a higher proportion of debt in the firm's capital structure leads to higher ROE. Financial leverage benefits diminish as the risk of defaulting on interest payments increases. So if the firm takes on too much debt, the cost of debt rises as creditors demand a higher risk premium, and ROE decreases. Increased debt will make a positive contribution to a firm's ROE only if the matching Return on assets (ROA) of that debt exceeds the interest rate on the debt. As with many financial ratios, ROE is best one to be used in comparing companies in the same industry. We will use influence quantification which is a very good financial analysis method indicated how quantify the component ratio contributed to the change in basic ratio at most. And there are four methods of quantification of influence. We will select gradual change decomposition method to analyze whose change has caused change in the basic ratio---ROE.

ROE = Profit Margin × Total Asset Turnover ×financial leverage

Table 4.6 DuPont analysis

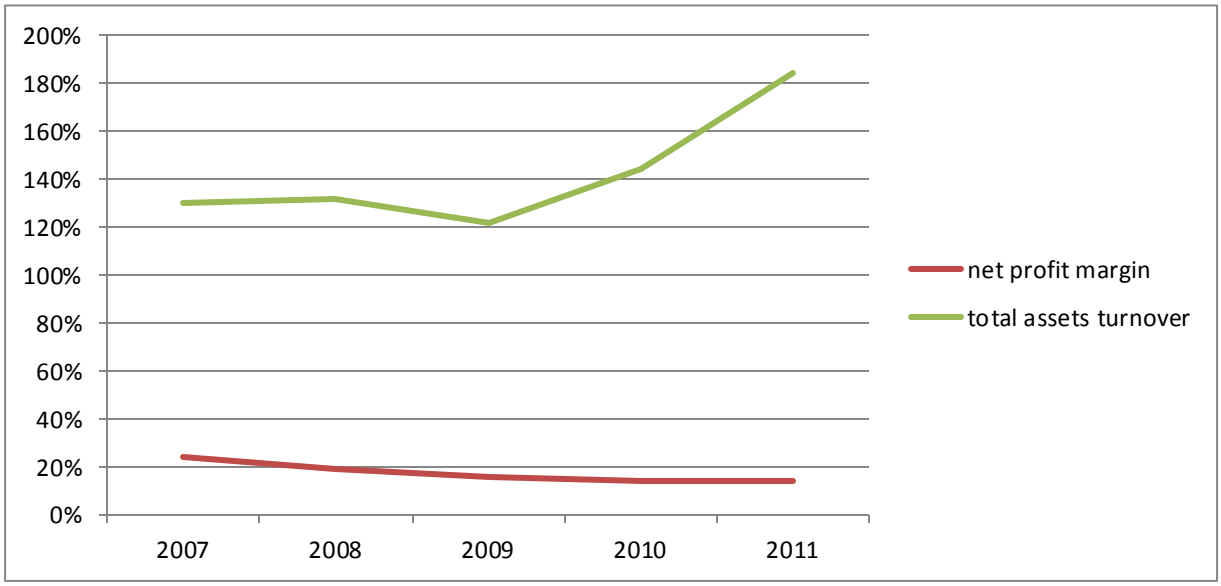
	DuPont analysis				

	2007	2008	2009	2010	2011
net profit margin (1)	**24%**	**19%**	**16%**	**14%**	**14%**
total assets turnover (2)	**130%**	**132%**	**122%**	**144%**	**184%**
ROA(3) (3)=(1)·(2)	**31%**	**25%**	**20%**	**20%**	**26%**
financial leverage (4)	**163%**	**191%**	**181%**	**255%**	**243%**
ROE (5) (5)=(3)·(4)	**51%**	**48%**	**35%**	**51%**	**63%**

From table 4.6, we can find the return on assets has decreased continually from 2007 to 2010, while after 2010; it has a very litter increase, and it increase 20% to reach 26%,return on assets is an indicator of how profitability a company is before leverage, and is compared with companies in the same industry. Since the figure for total assets of the company depends on the carrying value of the assets, some caution is required for companies whose carrying value may not correspondence to the actual market value. And when we see the table 4.6, we can see HTC Company has a relatively high ROA compared to others in these financial years, which declares that HTC Company has made strong innovation plan and marketing investment. And HTC company has successfully expands its global market share. During this five years ,at the begging in 2007,ROA ratio for HTC company is at the peak, which is

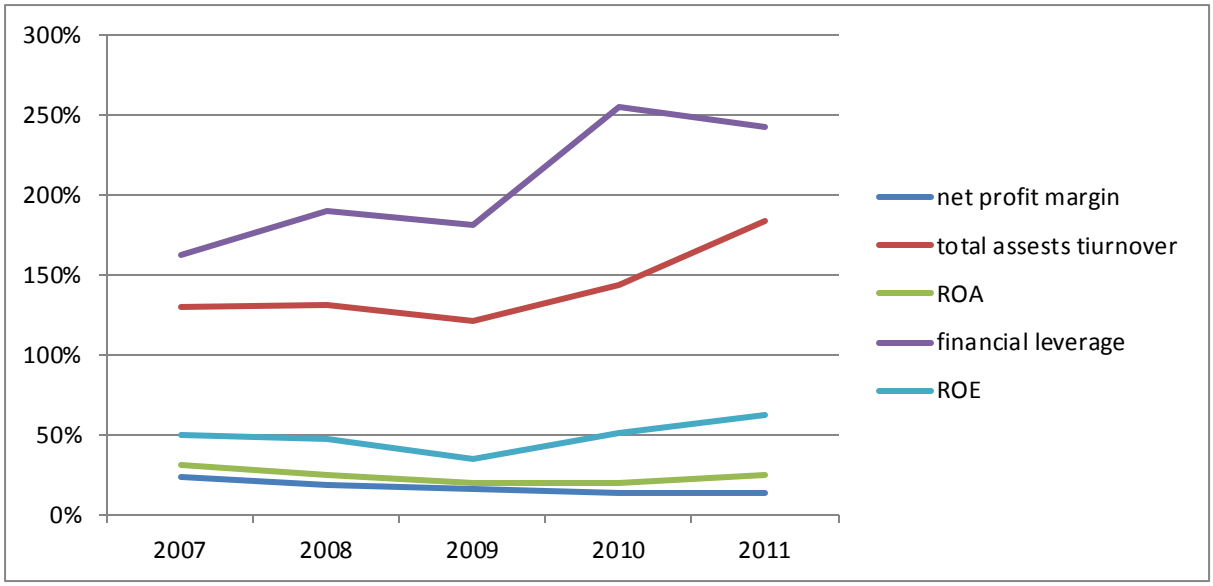
highest nearly 32%,then it starts to decrease, in 2009,it has decreased to 19%,while in the next two years ,the ROA ratio starts to increase. If we want to explore why ROA ratio decrease from 2007 to 2009, and it starts to grow from 2010, we should use DuPont analysis, the table 4.6 shows to us that net profit margin and total asset turnover are two influencing factors that directly have impact on ROA.

Figure 4.11 Influencing factor of ROA 2007—2011



As the Figure 4.11 shows to us, we can see that net profit margin and total assets turnover are two factors which have epact on ROA according to Dupo analysis. And we will very easily conclude that total assets turnover plays much more important role that influences ROA from table and figure. In this five years that total assets turnover ratios are all larger than 100%, and in 2011, this ratio is 184%.

Figure 4.12 Return on equity



From Figure 4.12, the return on equity ratio in this period is quiet stable, the fluctuation of this ratio is not so big, It means that P&G Company can deliver a stable return on equity and steady earning grows during this period, even if economic condition was not very good on that period., and 2009 it's a special year, we can look the dates in table 4.6, in 2008, the return on equity ratio is 48%, while it has decreased sharply during this year, and in 2009, the ratio is 33%, it is certainly influenced by the financial crises, return to assets and net profit margin decrease as well. In 2011, ROE has the highest value, a strong return on equity indicated that HTC Company can sustain its competitive advantage and earnings growth.

4.3 Influence Quantification

We can deeply study the company's ROE by the method we have already introduced in chapter 2 by using the formula (2, 20) and formula (2, 21), we will divide ROE into three parts. EAT is the short abbreviation of earning after tax which is the same conception as net profit. First of all we need to calculate the absolute change and index change of ROE by using the date in table 4.6.

Table 4.7 Change of ROE

	2007	2008	2009	2010	2011
ROE	**51.467%**	**47.046%**	**34.434%**	**52.888%**	**61.423%**
Absolute change		**-4.420%**	**-12.612%**	**18.454%**	**8.535%**
Index of change		**0.914**	**0.732**	**1.536**	**1.161**

The method of gradual change will be used to discover which ratio contributes to the change of ROE at most. In this part, a_1 means net profit margin, a_2 is total assets turnover and a_3 stands for financial leverage. In table 4.6, in this gradual changes method, ROE is the basic ratio, net profit margin, asset turnover, financial leverage as component ratios. In table 4.6, we can see in 2007-2008 that financial leverage has a big influence on return on equity. And the situation changes in 2008-2009, asset turnover and financial leverage have the same influence. Then in 2009-2010, financial leverage's influence starts to increase, and it is 74%. In 2010-2011, the biggest influencing factor changes to asset turnover ratio. We will see that in all this financial period, net profit margin always have the effective impact. And we need to emphasize in 2008-2009, this entire three compound ratios have the ergative impacts which lead to ROE reduced. As a result of the depressed economic environment in 2008-2009, the performance of HTC Company getting worse and costs grew disproportionately. Therefore, incomes were negative.

Table 4.8 Method of gradual change in 2010-2011

2010-2011	a2010	a2011	$\triangle a_i$	$\triangle X_{ai}$	Order
a1=EAT/REV	**14.4%**	**13.7%**	**-0.7%**	**-2.5%**	**2**

a2=REV/ASSETS	**144.5%**	**184.3%**	**39.8%**	**13.9%**	**1**
a3=A/E	**254.8%**	**243.4%**	**-11.4%**	**-2.9%**	**3**

In the table 4.8, we will specifically focus on the year 2010 to 2011, we regard the return on equity as the basic ratio, and as it showed in these two tables, ROE can be influenced by different kinds of compound ratios, in this table, is the different component ratios are revenue and total operating expenses. And we can clearly see which component ratio has big impact.

Table 4.9 Method of gradual change in 2009-2010

2009-2010	**a 2009**	**a 2010**	**△a1**	**△Xai**	**order**
a1=EAT/Revenues	**15.60%**	**14.40%**	**-1.2%**	**-2.7%**	**3**
a2=Revenue/Assets	**121.80%**	**144.50%**	**22.7%**	**5.9%**	**2**
a3=A/E	**181.40%**	**254.80%**	**73.4%**	**15.3%**	**1**

In table 4.9, we will see that the influence order of these three component ratio to return on equity. And we will see during this time period, the biggest one is financial leverage, it accounts for 15.3%, while the net profit margin has the negative influence.

Table 4.10 Method of gradual change in 2008-2009

2008-2009	a2009	a2009	△a1	△Xai	Order
a1=EAT/Revenues	18.70%	15.60%	-3.1%	-7.8%	3
a2=Revenues /Assets	131.80%	121.80%	-10.0%	-3.0%	2
a3=A/E	190.70%	181.40%	-9.3%	-1.8%	1

In table 4.10, we will see the influence factor during the year 2008-2009, all of these three influencing factors are negative. The first order is the financial leverage.

Table 4.11 Method of gradual change in 2007-2008

2007-2008	a2007	a2008	△a1	△Xai	Order
a1=EAT/Revenues	18.7%	13.7%	-0.7 %	-2.5%	2
a2=Revenues/Assets	131.8%	184.3%	39.8 %	13.9%	1
a3=A/E	190.7%	243.4%	-11.4 %	-2.9%	3

In table 4.11, it shows how many percent of these factors and the total assess turnover has the biggest impact. It is 13.9%. It means during this period, HTC company's revenues changes a lot because of the financial crises. So it decreases very sharply.

Summary

In this chapter, we have introduced common size analysis, ratio analysis and DuPont analysis which are the three basic financial analysis methods. We got the financial dates form the annual reports from HTC Company, we use these dates to make graphs and tables which will help us to analysis. As for the ratio analysis, we mainly focus on four kinds of financial ratios. Though ratio analysis and DuPont analysis we will basically know that the biggest affecting factors are the revenue and net profit, for their future development and safety they should really have a look at their financial performance, but there is a not doubt that H TC's liquidity is in a good condition, so except those problems HTC always going forward, and trying their best to adapt to the changeable society.

5 .CONCLUSION

In this thesis, as we have already introduced in chapter 1 that the objective for this thesis is The goal of the thesis is to analyze whether the company's operation is properly run, looking for the company's problems and potential risks, suggesting useful and effective solutions to the problem, working out a new budget plan and strategy for future development, expecting to earning a greater profit for the company. The purpose of analyzing of HTC Company is to assets the financial performance and the financial condition. Through the analysis of some basic financial ratios based on the financial relevant information from 2007-2011, we can assets the influence on some major events, some important decisions. The dates show the HTC Company's trend, weakness and strengths. Overall, we can predict the HTC Company's behavior in future and make a sensible decision to get the sustainable dev elopement. HTC is one of the fastest growing enterprises in the handheld industry, and in the past few years, the deep consumer recognition. "Business Week" (Business Week) ranked HTC as the second of the performance of the technology companies in the Asian region in 2007, and in 2006 as the company ranked third in the world of technology companies. In chapter 2 some financial analysis methods which I have used in this thesis have been explained, these methods are common-size analysis and financial ratios analysis, In this chapter most of the financial analysis methods have been summarized, and in chapter 4, all this method we have introduced have been used to analysis HTC company. As for the ratio analysis, form the year 2009 to 2011, the return on assets was increased during this period, which indicated P&G Company have high capacity to obtain the benefit. It means that P&G kept the high profitability.

It suggests that HTC Company in this period is in good financial condition. We use DuPont analysis to measure ROE, The decomposition of ROE; we concluded that the most effect on return on equity is net profit margin. for their future development and safety they should really have a look at their financial performance, but there is a not doubt that H TC's liquidity is in a good condition, so except those problems HTC always going forward, and trying their best to adapt to the changeable society. And the most important measure to improve the profit is to focus on the R&D, to seek for a better management and improve the staff's working

ability. And of course, as a result of the competition in this mobile phone industry is very fiercely, so HTC should always follow the market and meet the customers demand.

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LIST of abbreviation

ROA: Return on assets

ROE: Return on equity

TL: Total liabilities

TA: Total assets

LTD: Long-term debt

TR: Total revenue.

DSI: Days sales outstanding.

EBIT: Earnings before interest and taxes

EAT: Earnings after taxes

EBT: Earnings before taxes

S: Sales

A: Assets

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- Utilization of the Work as a Part of Civil and Religious Ceremonies, as a Part of School Performances and the Utilization of a School Work – and Section 60 – School Work, fully applies to my diploma (bachelor) thesis;
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- I agree that the diploma (bachelor) thesis shall be archived in the electronic form in VSB-TUO's Central Library and one copy shall be kept by the supervisor of the diploma (bachelor) thesis. I agree that the bibliographic information about the diploma (bachelor) thesis shall be published in VSB-TUO's information system;
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Ostrava dated May 10, 2013

Hang Xia
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Student´s name and surname

List of Annexes

Annex 1. Balance sheet

Annex 2. Cash flow

Annex 3. Income statement

Annex 1. Balance sheet

	2007	2008	2009	2010
cash	56,490,185	64,237,728	64,638,290	74,462,861
Financial assets at fair value through profit or loss	0	0	18,132	450,276
Notes receivable	3,532	26,009	27,125,609	61,614,355
Available-for-sale financial assets - current	0	0	2,497,394	441,948
Inventories	7,237,231	8,250,337	5,557,713	26,413,747
Prepayments	1,567,761	1,285,483	3,341,649	2,653,778
Deferred tax assets	570,992	550,530	812,254	1,051,196
Other current assets	179,267	161,320	172,872	767,825
Total current assets	85,728,511	104,256,700	104,422,387	156,875,067
Available-for-sale financial assets - noncurrent	784	339	313	538
Financial assets carried at cost	501,192	501,192	565,172	975,596
Investments accounted for by the equity method	0	39,906	0	9,900,410
Total long-term investments	501,976	541,437	810,485	1,232,145
Land	610,293	3,568,124	4,719,538	5,862,076
Buildings and structures	2,254,855	2,856,815	4,218,443	5,005,642
Machinery and equipment	3,966,723	4,579,241	4,702,420	7,236,349
Molding equipment	212,360	194,320	199,392	172,632
Computer equipment	284,260	350,118	411,504	474,299
Total cost	7,670,004	12,208,898	14,924,279	19,314,424
Properties, net	4,220,962	8,916,350	9,899,808	14,024,329
Goodwill	174,253	289,308	239,992	497,803
Deferred pension cost	953	475	490	416
Total intangible assets	175,206	289,783	240,482	935,650
Total other assets	789,826	1,738,140	3,577,361	5,550,094
TOTAL assets	91,416,481	115,742,410	118950523	190,381,744
Short-term borrowings	0	75,000	72,326	0
Notes and accounts payable	23,201,620	28,569,935	25,152,521	63,916,803
Income tax payable	2,558,703	4,039,613	4,270,962	6,809,417
Accrued expenses	5,126,409	15,348,770	16,963,888	33,426,028
Payable for purchase of equipment	179,280	314,086	153,551	441,976
Other current liabilities	3,970,032	6,108,696	6,614,533	11,034,691
Total current liabilities	35,152,925	54,998,933	53,250,281	115,641,103
Guarantee deposits received	633	6,420	1,210	13,959
Total liabilities	35,229,183	55,052,228	53,275,866	115,667,250
Common stock	5,731,337	7,553,938	7,889,358	8,176,532

Additional paid-in capital	**4,374,244**	**4,374,244**	**9,056,323**	**10,777,623**
Long-term equity investments	**15,845**	**17,534**	**18,411**	**18,411**
Merger	**25,756**	**25,756**	**25,189**	**24,710**
Legal reserve	**4,516,253**	**7,410,139**	**10,273,674**	**10,273,674**
Accumulated earnings	**41,403,867**	**44,626,182**	**38,364,099**	**52,876,892**
Cumulative translation adjustments	**9,664**	**65,602**	**15,088**	**-579,849**
Unrealized valuation losses on financial instruments	**-1,187**	**-1,632**	**-1,658**	**-885**
Treasury stock	**0**	**3,410,277**	**0**	**-6,852,493**
Equity attributable to stockholders of the parent	**56,075,779**	**60,661,486**	**65,640,450**	**74,714,494**
Total Stockholders' equity	**56,187,298**	**60,690,182**	**65,674,657**	**74,714,494**

Annex 2 Cash flow statements

	2007	2008	2009	2010	2011
Net Income/Starting Line	28,917,712	28,635,349	22,608,902	39,533,600	61,975,796
Depreciation (including depreciation of assets leased to others)	681,257	568,208	633,950	622,438	928,774
Amortization	51,862	35,983	39,847	58,621	397,022
Compensation cost recognized for the transfer of treasury stock to employees	0	0	0	0	1,788,270
Distribution of bonuses to employees of subsidiaries	0	0	-17,731	-157,007	-599,510
Amortization of premium on financial assets	30,951	35,983	39,847	385	3,349
Prepaid pension costs	-20,252	-21,951	-20,515	-21,293	-24,882
Gains on equity-method investments	-103,997	57829	-273811	-1,457,395	-2,718,362
Cash dividends received from equity-method investees	0	0	905	480	1,786
Loss on disposal of properties, net	-1,458	300	-2984	139	0
Transfer of properties to expenses	0	18059	7021	532	59
Gains on sale of investments, net	0	0	3035	-3001	-29
Impairment loss on financial assets carried at cost	0	0	30944	1192	0
Deferred income tax assets	-294803	-431,528	-503,703	-1,467,669	-1,768,812
Financial instruments at fair value through profit or loss	19,786	417,827	-532,215	-432,144	193,408
Notes receivable	-570,016	-9,913,317	3,534,014	0	-755,450
Accounts receivable	-570,016	-9,913,317	3,534,014	-9,852,810	3,894,712
Accounts receivable from related parties	774,915	-401,895	-1,305,780	-25,941,841	-4,790,878
Inventories	-1,273,189	-1,299,054	2,679,768	-16,703,299	-3,468,828
Prepayments	304,116	299,696	-2,095,767	1,003,874	-4,726,510
Other current assets	-63,149	-45,166	35,227	-330,274	-101,225

Other current financial assets	83,900	8,545	41,305	-483,435	-666,291
Other assets - other	0	0	-1,843,170	-640,985	-4,251,899
Notes and accounts payable	5,918,175	5,887,026	-3,024,822	31,929,341	15,171,760
Accounts payable to related parties	0	0	0	1,261,305	2,292,250
Income tax payable	799,986	1,423,351	214,879	2,264,043	3,236,423
Accrued expenses	2,636,439	10,363,107	6,449,927	16,479,349	14,946,453
Other current liabilities	2,385,612	1,989,656	888,452	5,171,658	4,753,191
Net cash provided by operating activities	39,781,172	37,594,155	27,541,608	40,835,804	85,710,577
Purchase of available-for-sale financial assets	0	0	-8,105,512	-3,551,180	-490,000
Proceeds of the sale of available-for-sale financial assets	0	0	5,611,153	5,610,175	200,029
Increase in investments accounted for by the equity method	-1,472,702	-2,108,829	-1,164,135	-208,331	0
Purchase of properties and assets leased to others	-1,424,307	-4,577,491	-1,426,671	-3,031,907	-23,186,330
(Increase) decrease in refundable deposits	-86,803	-24,027	48,298	-3,004,250	-5,328,935
Increase in deferred charges	-52,019	-	-57,495		
Net cash provided by operating activities	39,798,211	37,594,155	27,541,608	40,835,804	85,710,577
Net cash used in investing activities	-2,364,146	-6,702,468	-5,154,257	-4,420,611	-31,207,257
Net cash used in financing activities	-15,900,468	-24,101,046	-22,537,760	31,809,581	41,913,076
Transfer of retained earnings to common stock	1,403,385	1,822,601	5,327,586	386,968	403,934
Transfer of assets leased to others to properties	0	0	261,824	47,813	50,828
Retirement of treasury stock	1,991,755	0	5,817,207	4,834,174	8,509,336
Transfer of stock bonuses to employees to common stock and additional paid-in capital	0	33,030	0	1,943,694	4,245,851
Net cash used in financing activities	-15,900,468	-24,101,046	-22,537,760	-31,809,581	-41,913,076
Cash paid for increase in long-term investments	1,472,702	2,108,829	1,164,135	3,031,907	23,186,330

Cash paid for the purchase of properties and assets leased to others	1,424,307	4,577,491	1,426,671	3,004,250	5,328,935
Cash paid during the year					
Interest (net of amounts capitalized)	241	232	131	46	10,265
Income tax	2,751,561	1,963,307	2,892,386	4,161,335	6,406,264
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	34,969,818	55,036,232	61,826,873	61,676,464	66,282,076
CASH AND CASH EQUIVALENTS, END OF YEAR	56,490,185	61,826,873	61,676,464	66,282,076	78,872,320

Annex 3 Income statement

income statement	2007	2008	2009	2010
REVENUES	118,579,958	152,558,766	144,880,715	275,046,954
COST OF REVENUES	78,402,458	101,916,912	99,018,232	195,489,982
GROSS PROFIT	40,177,500	50,641,854	45,862,483	79,556,972
UNREALIZED PROFIT FROM INTERCOMPANY TRANSACTIONS	-175,075	-134,091	-108,150	-11,859
REALIZED PROFIT FROM INTERCOMPANY TRANSACTIONS	164,011	175,075	134,091	108,150
REALIZED GROSS PROFIT	40,166,436	50,682,838	45,888,424	79,319,667
Selling and marketing	4,837,071	9,009,785	11,103,061	19,516,895
General and administrative	927,680	1,798,900	2,010,000	4,812,579
Research and development	3,866,148	9,617,768	8,600,369	12,694,850
Total operating expenses	9,630,899	20,426,453	21,713,430	37,024,324

OPERATING INCOME	30,535,537	30,256,385	24,174,994	42,295,343
Interest income	816,136	1,368,322	348,693	286,610
Gains on equity-method investments	103,997	-	273,811	1,457,395
Gains on sale of investments, net	-	-	3,035	3,001
Exchange gain	658,247	660,765	513,650	-
Other	230,408	265,300	463,057	338,432
Total non-operating income and gains	1,810,908	2,300,018	1,623,362	2,536,080
Interest expense	241	232	131	46
Losses on equity-method investments	-	57,289	-	-
Losses on disposal of properties	1,396	7,378	2,576	13,066
Exchange loss	-	-	-	214,679
Impairment losses	-	-	78,946	32,771
Other	101,301	390,990	558,994	47,059
Total non-operating expenses and losses	200,16	929,04	646,58	311,13

	5	3	1	7
INCOME BEFORE INCOME TAX	32,231,936	31,735,716	25,396,412	44,964,388
INCOME TAX	-3,314,224	-3,183,190	-2,781,999	-5,449,544
NET INCOME	28,917,712	28,552,526	22,614,413	39,514,844
Stockholders of the parent	28,938,862	28,635,349	22,608,902	39,533,600
Minority interest	-21,150	-82,823	5,511	-18,756
	28,917,712	28,552,526	22,614,413	39,514,844
BASIC EARNINGS PER SHARE(before income tax)	42.55	41.89	30.5	54.57
BASIC EARNINGS PER SHARE(after income tax)	38.30	37.97	27.35	48.89
DILUTED EARNINGS PER SHARE(before income tax)	42.55	40.42	29.95	53.90
DILUTED EARNINGS PER SHARE(after income tax)	38.30	36.64	26.86	47.89